



Institute On Governance

From Jeans to Jackets: **Navigating the transition to more systematic governance in the voluntary sector**

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The Institute On Governance (IOG) is a non-profit organization founded in 1990. Its mission is to explore, share and promote good governance in Canada and abroad, and to help governments, public sector organizations, the voluntary sector, communities and the private sector put it into practice. From our perspective, governance comprises the traditions, institutions and processes that determine how power is exercised, how citizens are given a voice, and how decisions are made on issues of public concern.

Our current activities fall within the following broad themes: Modernizing Government; Board and Organizational Governance; Aboriginal Governance; Building Strong Partnerships; Health and Innovation; and International Programming.

In pursuing these themes, we work in Canada and internationally. We provide advice on governance matters to organizations in the public, private and non-profit sectors. We bring people together in a variety of settings, events and professional development activities to promote learning and dialogue on governance issues. We undertake policy-relevant research, and publish results in the form of policy briefs and research papers.

You will find additional information on the Institute and our current activities on our web site, at www.iog.ca.

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Organizations, like people, go through periodic transitions. Like people, some find transitions difficult, even painful. One such transition may involve a move from an informal approach to governance or "jeans" toward one that is more systematic or formal - "jackets". This metaphor captures, to some degree, the change from an easy-going way of doing things to one where there is more structure. The "jeans to jackets" transition does not have to be painful - in fact, it can be constructive and even revitalizing for an organization. But it helps if those involved understand what is going on, and why.

In its early years, a voluntary organization may simply be a group of people who come together to accomplish some shared purpose of benefit to the community. Lots of organizations remain at this stage - growth is not a necessary or even a desirable process for every voluntary organization. However, others may eventually find that part- or full-time staff are needed. The founders may continue to work alongside the staff in a *supplementary* role, continuing to carry out practical tasks, and probably not even thinking of themselves as a "board".

Fundraising may trigger more systematic governance

The decision to approach governance in a more systematic way may well be triggered by a desire to open up new fund-raising avenues by seeking official charitable status, requiring incorporation. Because the organization may now have access to funds from the government, foundations, or the public at large, questions of accountability become more salient, as does the role of the board.

The passage toward a role for the board that is distinct from that of staff will not necessarily be accomplished easily--tensions frequently arise. Many board members have trouble making the shift from "doing it themselves" to having staff or other volunteers execute the practical work, while their role changes to one of oversight. For staff, the idea that the board is their 'boss' may come hard, especially if some have been with the organization for a long time and have helped to carry it through its formative years.

Here are problems that may arise:

- The lead staff person - the Chief Executive Officer (CEO) or Executive Director - develops a strong degree of ownership and works full time while board members are only involved periodically. The CEO feels a stronger, more intimate understanding of the needs of the community than does the board and starts to resent "interference" by directors.
- The CEO, whose prime interest is the day-to-day operation of the organization, sees work related to the functioning of the board as a distraction from the "real work" of the enterprise. Understandably, this syndrome may become acute if (as too often happens) the board does not provide any real value-added to the organization.
- Board members find that they need to establish committees or task forces to complement the work of the full board. And these entities require support - to arrange meetings or set

agendas, to keep track of documents, to prepare background research or record decisions. Directors look to staff for this. But the staff regard these emerging demands as a new burden which may not seem to provide much tangible benefit -- they have other priorities that in their view are more pressing. So board members' demands are put on the back burner and soon, not getting the support they expect, they become irritated at the "lack of staff cooperation".

Guidance for smaller non-profits

Road maps are available for those who are perplexed about governance issues but many are written with wealthy non-profits in mind. The voluntary sector in Canada comprises thousands of organizations. There are roughly 200,000 incorporated non-profits, but if one includes the non-incorporated ones, for which there are no reliable statistics, it has been estimated that there may be as many as two million. Their economic value is said to be equivalent to that of the economy of British Columbia and is clearly of great importance to the country.

The vast majority of organizations in this sector have revenues under \$250,000 per year. Most earn less than \$50,000. But most of the road maps and governance guides are written for organizations that are in the top income bracket, with revenues of over \$500,000 and relatively large staffs.

Over the last two years, the Institute On Governance (IOG), a non-profit think tank based in Ottawa, has studied governance in the voluntary sector, seeking answers to three questions: what constitutes "good governance" in this sector; what stands in the way of improving governance; and what strategies for building capacity are most likely to succeed? A study recently published in the U.K. entitled "*A lighter touch*" complements the IOG's research: it examines how to strengthen governance in the voluntary sector, particularly among community groups and small organizations.

What to do? The perils of the 'policy governance' model

Some answers revealed through the IOG's Canadian research won't surprise anyone. We found the pathway to better governance cluttered with the usual barriers: insufficient time, resources, expertise, and too many immediate pressures. But the Institute's research also revealed that one of the key impediments, often less well recognized, lies in the domain of *ideas*. Many organizations don't have a clear concept of what governance means, why it matters, or how to move from where they are now to better governance. A similar difficulty was found in the U.K. study.

One road map to better governance quite well known in the sector is the "policy governance" model, also known as the "Carver" model after its originator, consultant John Carver. Many organizations going through the transition to better governance have tried to apply this model.

First articulated in 1990, the "policy governance" ideas are modestly promoted as "the world's only complete, universal theory of governance—a conceptually coherent paradigm of principles and concepts (not of structure)." The model is highly prescriptive. It says that all boards of

directors have to lead their organization, setting basic directions and policies. Execution only is the job of staff. Strict rules are important: rules that govern the board-staff relationship, that define what the CEO or executive director is *not* permitted to do ("executive limitations"), and that dictate the board's role, which is to deal with broad strategic decisions with long term applicability. The board's role is "governance"; board members are not expected to collaborate with staff, nor is the board encouraged to form committees.

Our research, still under way, suggests that some claims made on behalf of this model are seriously over-inflated, in particular, the claim to "universality". The model is *not* universal, and its ideas are *not* a formula that will lead to the best governance results for any kind or size of organization. There are further indications that the "model" works a whole lot better in theory than in practice (see, for example, a 1994 article in *Front and Centre* by York University professor Vic Murray, where he cites serious problems with the Carver approach, both practical and conceptual).

Judgement, not formulas: from model-based to 'mission-based' governance

What's the alternative? Organizations involved in this transition need a different kind of map. They need a chart to orient themselves, but, assuming they know their destination, they do not need instructions that they must follow no matter what the circumstances. They don't need a 'canned' approach to governance or a model to emulate: they need to rely on their experience and judgement.

When boards move from a situation where their work is *supplementary* to that of staff to a new relationship where their work is *complementary*, they do not move to a different planet, to a "governance" world where they are entirely remote from staff. In our experience, when things work well in a voluntary organization, the work of the board remains organically linked to that of staff.

What, then, is the role of the board? It's perhaps easiest to understand if the board's job is described in terms of tasks:

- *Ensuring the organization's financial health*: the board should not just focus on ensuring money is spent prudently. Its real function is financial *stewardship*. This includes making sure sound accounting systems are in place, and working with a reliable auditor. It also embraces other elements: adopting a budget, ensuring that staff manage to it and that the flow of revenues remains in line with budget projections. A related financial responsibility, often overlooked, is cash management. Small businesses that fail to manage cash will go bankrupt and the same is true of non-profits.
- This view of financial stewardship implies a need for fund-raising. This can take place in two ways: either board members play a major part in it, or they make very sure that measures are being taken by others under their supervision to assure adequate revenues in future. Financial stewardship is thus very closely allied to the following board task.
- *Ensuring sound relationships*: many voluntary organizations have a complex web of relationships - with funders, community groups, members, clients, volunteers or other

stakeholders. Relationships are important for a host of reasons: to provide good input to planning, to help identify new challenges or opportunities, to help pull out of a crisis, to assess program performance, etc. Getting money is a key dimension of this. Experienced fundraisers will affirm that overall, the ability to raise money is only as good as the organization's reputation. The board is accountable for making sure that key relationships are in good order, and for helping to forge new relationships to meet future needs. Relationship-building thus involves conceptual tasks, like the development of communication and marketing strategies, as well as more prosaic activities such as speaking engagements, private discussions with community leaders and others, making representations, taking part in public meetings, and media relations.

- *Ensuring good performance*: Boards need to know if results are being achieved. Some boards rely exclusively for their information on formal staff reports. Such boards may have little direct contact with stakeholders, be they clients, funders, volunteers or others. Such boards are unlikely to know whether the organization is making a difference, or whether value for money is being achieved. The effective board will usually invest a fair amount of time discussing the questions: what does good performance mean for us? How do we measure how well we are doing? It will rely on multiple sources of intelligence, both formal and informal, to keep on top of this aspect of its responsibilities. Board members should play a role in collecting and assessing this intelligence.
- *Communicating or advocating effectively*: not all voluntary organizations include an advocacy or communications role in their core mission; but for some, this is a key element. Community organizations often publish newsletters for residents, for example. They may make representations to city hall. Other kinds of non-profits advocate on behalf of their members for changes in government policy or in corporate practices. These are areas where board members usually need to be deeply involved; indeed in some cases, the staff may play a relatively minor role and the principal responsibilities for getting the job done may rest directly with board members. This is a long way from the arm's length policy governance model advocated by Carver proponents, but it's a key part of the job for many non-profits.
- *Developing and updating a longer-term plan*: in the typical under-resourced non-profit, staff are busy with day-to-day responsibilities. Board members, on the other hand, may have the latitude to take a longer view of the organization's future. The need for this, and the organization's ability to engage in this kind of reflection, tends to ebb and flow. Sometimes a focus on the long term can be a distraction from matters of much greater priority. However, the advantages of having a longer-term view are many - for example, such a plan can provide a frame of reference for fund-raising, for recruitment (board and staff), and for facilities planning. There is a natural affinity between the work of the nominating committee of the board and those individuals who define the organization's strategic plan.
- *Ensuring the existence of a sound governance framework*: a "governance framework" (sometimes called a governance system in the private sector) comprises those core documents (bylaws, articles of incorporation), and those policies, practices and

conventions that define how the governance process is supposed to work and who takes decisions. Some organizations, such as a large hospital, for example, will require a complex, well-defined framework, while smaller organizations may find they can get by with simple bylaws and a few ancillary governance policies.

At the core of the governance framework are the organization's bylaws, with their provisions relating to matters such as the role and composition of the board, the role of the CEO, membership, elections and the like. Many non-profits pay little attention to their bylaws; yet these are a key governance tool.

In addition to the bylaws, other governance policies may address such issues as how committees are constituted, who presides over them, how the budget is to be approved, how new board members are to be recruited and oriented, and basically, how power is allocated and responsibilities assigned at the board level. Governance policies may also prescribe how the CEO is to be evaluated, how the board is to assess its own performance, the kinds of consultative arrangements that the organization should employ in taking decisions, and some of its key communications practices. The board is responsible for developing a well-designed governance framework that reflects the mission of the organization as well as its core values. At the Institute On Governance, we differentiate between a "model-driven" approach to governance (does anyone use a "model-driven" approach to management?) and the perspective we advocate: a "mission-driven" approach where the governance framework is tailored to the objectives, traditions and goals of each organization.

When a non-profit begins to make its governance arrangements more explicit, it is unlikely that the board will perform all its new tasks effectively within a few months. The process may be further complicated if, as often occurs, the membership of the board turns over. Thus, some board members may be left over from the old days, when informal practices were quite adequate, while new members may come in with different expectations as to how things should work. If this occurs, the organization will need to invest time reconciling differences of views among board members.

Board/staff partnership is key to effective governance

Most boards that function well do so on the basis of a partnership with staff. Staff frequently serve as the catalyst for the involvement of board members. They provide the glue that ensures continuity. They support board work, although obviously the degree of support will depend on the staff resources available - less in small organizations (therefore the board members will have to be more self-reliant), more in large ones.

As the board moves into a complementary relationship to staff, its members need to work together with the CEO, and possibly other staff members, to define how this collaboration will work. This can add a layer of complexity to the job of the CEO, who may understandably want to be in a position to set staff priorities, but who, on the other hand, will probably find it cumbersome to try to channel every detail of staff-board interaction through his or her office. How all this plays out will depend on the capabilities, interest and temperaments of both the board chair and the CEO - but then, there is nothing new in that. All organizations have to

accommodate this reality, whether in the private sector, the voluntary sector or government. It's a much more complex relationship than that contemplated in the "policy governance" model, but potentially far richer. And, with good will and intelligent management, it actually works - a significant advantage!

What is important, however, is that both staff and board engage in this partnership with an understanding of the basically complementary nature of the board-staff relationship. This understanding defines certain limits to board activity, including in particular, a prohibition on micro-managing the staff. It also imposes inescapable responsibilities on the board: jobs it needs to carry out itself, or that it must ensure that others are carrying out under its direction. Further, it should be recognized that this partnership will always be in a state of gentle flux. It shifts as players change, and as the context of the organization evolves. If problems arise, as they undoubtedly will, they need to be identified and discussed openly by the CEO and the board chair.

In conclusion, the transition toward a more formal approach to governance need not be rocky. Certainly it will be smoother if both board members and the CEO recognize the following:

First, there exists a province of functions that are the special preserve of the board.

Second, some problems will attend the process of transition. These are natural growing pains.

Third, it will take board members time to settle into their new roles.

Fourth, most organizations find that collaborative board-staff relationships yield positive results. But occasional difficulties should be expected and should be managed constructively by both board and staff.

Fifth, staff often provide the continuity for board work and act as a catalyst to allow it to move ahead. Staff need to learn to play this role effectively if full value is to be derived from the board-staff relationship. Board members need to temper their demands on staff, particularly during the transition period, if these resources are stretched thin.

Finally, the key players in the interaction between board and staff are the board chair and the CEO. Regular communication between these individuals will provide a framework within which problems can be dealt with easily. With organizations, as with individuals, the challenges of transition are more readily addressed if there is frank communication among all parties.

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