

Children's Mental Health Ontario &
Ontario Association of Children Aid Societies
June 2008 Joint Conference

Principles for Good Governance

Presented by:

Fay Booker, FCA, C.Dir.

fbooker@bookerandassociates.com



Principles for Good Governance

Objectives

- Learn principles for a Board to follow to fulfill good governance
- Explore ways to deal with difficult governance situations
- Gain tools to enhance your existing governance practices

Principles for Good Governance

Evolving Governance Expectations

A thick, dark blue horizontal bar with rounded ends, positioned below the main text area.

Evolution of Governance Thanks to

Household names.....

Enron



Worldcom

Nortel



Hollinger

Atlas Cold Storage



Tyco

Livent



Barings Bank

..... for the wrong reasons

Not just the corporate world

Dec 06 MADD's exorbitant costs anger charity's volunteers

Dec 06 Former Hydro One Chief drove luxury car on corporate tab

Dec 06 CAS junkets, lavish dining cited in leaked audit

Jan 07 Court rules hospital Board unfair

Dec 06 Children Get Huge Radiation doses



Rebuilding Trust

Results of high profile issues

- loss of savings, pensions
- loss of jobs
- reactions by regulators
- reaction of general public – loss of trust in institutions of all nature

Governance – Is a Responsibility



- Due to events like these, it's a new era
 - More demands on Directors to do their job
 - Higher expectations of Directors to safeguard stakeholders' interests
 - Major evolution in governance practices
 - Need for better understanding of what the job of a Board and a Director is and better performance of that job

Governance – Is a Job

- Expectation that Board and Directors will perform their duties diligently to protect the organization
- Not be a tool of management
- This means
 - smarter work by directors, the Board and Committees
 - education for Directors
 - demand for better information from management
 - better Board structures, practices, processes
 - reviews of how the governance level performs
- Doing the right job right

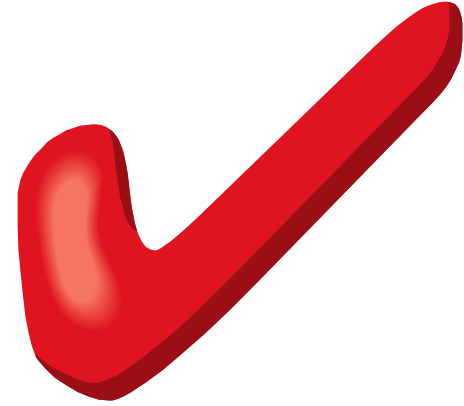
Board is responsible for stewardship of organization



Includes Board:

- Satisfying itself as to integrity of CEO and senior officers
- Satisfying itself as to culture of integrity throughout organization
- Engaging in strategic planning process and strategic plan
- Identifying principal risks of business and ensure implementation of management of risk
- Satisfying itself as to integrity of information and controls
- Developing trustworthy governance practices

Our Findings



- From performing numerous governance reviews
- Requisitioned by funders, by Boards themselves, by regulators
- Common findings

Governance in the Not For Profit World

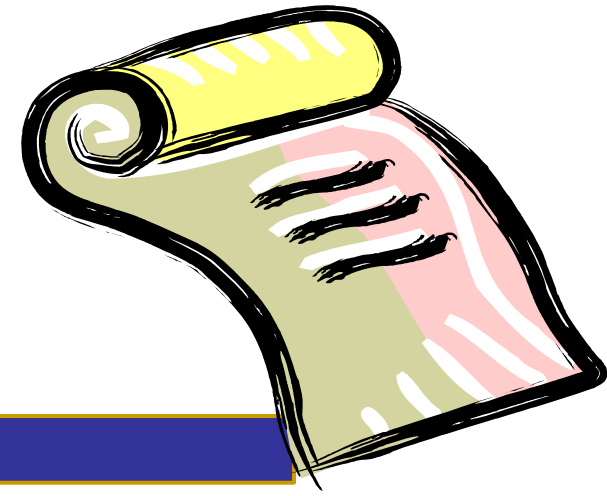
- Some generalizations
- Challenges in not for profit world
 - Managing rather than governing
 - Mixed messages from the governing body
 - Not understanding Board is a unit
 - Mixture of understanding of what is governance
 - Poor orientation and education of Board members
 - Poor decisioning practices

Governance in the Not For Profit World

- Little to no outline of Board responsibilities, director responsibilities, chair responsibilities
- Mixture of individual thoughts on how the Board should work
- CEO performance goals and review - minimal to non-existent
- Little to no focus on risk management - crisis
- Not understanding the “business”
- The stakeholder “figment”

The Booker 12 Principles for Good Governance

- One size does not fit all – solution needs to fit needs of the organization
- We have developed principles for good governance
- Principles are interdependent
- Need people following right process given needs of the organization



The Booker Twelve

1. Clear roles and responsibilities
2. Effective Board membership
3. Board orientation and development
4. Expectations and involvement of Directors
5. Effective Board structure
6. Effective decision making

The Booker Twelve

7. Effective policy setting
8. Setting organization culture
9. Oversight of risk management
10. Executive performance management
11. Effective communications
12. Board accountability

Evolution of Governance

- Lets review each of the 12 principles

Principles for Good Governance

Setting the Board's Job and How to Get the Job Done

A solid dark blue horizontal bar with rounded ends, positioned below the main text area.

Agenda

Setting Board's Job; How to Get Job Done

- Review roles & responsibilities of Board (principle one)
- The right people (principle two)
- Orientation & development program (principle three)
- Expectations and involvement of individual director (principle four)
- Effective Board Structure (Board Committees) – what are needed and responsibilities (principle five)



Principle 1: Clear Roles and Responsibilities



- Responsibilities of Board clearly laid out, understood, acted upon
- alignment between responsibilities of Board and CEO with no overlap or confusion of roles
- Board delegates management to CEO
- Recognition of fiduciary obligations

Document Responsibilities and fulfill

- The Board needs a job description
- Ensure duties of Board do not overlap those of the CEO's
- Compare job description of the Board with that of the CEO – major gaps? Any overlaps?

Responsibilities clearly laid out



Duties of a Board include:

1. Active participation in planning
2. Appoint, monitor, supervise management
3. Effective communication with stakeholders
4. Oversee risk management (protection of organization – assets, reputation)
5. Integrity of processes and management systems
6. Governance practices

Governing Not Managing

- What does this mean?
 - Setting direction and desired end result - not the how
 - Setting context
 - Noses in, fingers out
 - Holding CEO accountable
 - Monitor the means in achieving the ends
 - Monitor results, progress

Governing or Managing?

- Signing cheques?
- Selecting suppliers?
- Hiring second line staff?
- Establish organizational values?
- Hiring auditors?
- Reporting on financial performance?
- Setting vision?

Board's Job Description

- Important to have clarity of role
- Don't do the work of the CEO
- Board needs to know its role and perform it
- Example terms of reference - comments

**Board of Director
Terms of Reference**
The Board of Directors has the authority and obligation to protect and enhance the assets (tangible, intangible, human resources) of the organization in the interest of the stakeholders and is responsible for overseeing the CEO. Although Directors may be elected by the stakeholders to bring special expertise

Principle 2: Effective Board Membership

- skills, experience, knowledge, attributes, diversity of thinking needed given role & responsibilities of Board
- Board size permits necessary characteristics to be represented while allowing for Board efficiency
- process to identify individuals as potential Directors, ensuring individuals meet criteria and qualifications which permit them to serve effectively
- potential Board members interviewed for attributes; capacity to serve

The People Element



- Board membership
 - Skills, knowledge, attributes, diversity of thinking
 - Independence
 - Capacity to serve
 - Governing not managing
 - Understanding role and responsibilities
 - Respect for each other
 - Respect for management

Indicators of poor Board member performance

Lack of preparedness for meetings	Inconsistent attendance
Lack of participation during meetings	Not respecting position of Chair
Not respecting decisions of group	Conflict of interest
Not objective and not open-minded	Not seeing responsibility to organization
Individually pursuing issues with CEO and other staff	Failing to understand industry, business of organization
Sits on too many Boards	Trying to exert power



Principle 3: Board Orientation & Board Development

- orientation program for new Board members on organization, its mandate, its mission, strategic plan, and operations
- Educate new directors on roles and responsibilities of Board; duties and expectations of an individual Board member
- ongoing training (formal, informal) and information for Board members on items such as governance, changes to operations, changes in business environment, and stakeholders' needs

Orientation

- People new to organization need orientation to:
 - The activities of the organization
 - The job of the Board
 - The expectations of a Director
 - Protocols
 - Code of conduct
 - Mission, vision, values, strategic plan

Ongoing Development

- Setting the expectation
 - Budget to support training
 - Training as part of Board meetings
 - Hour requirement to be invested in training
 - Measuring and reporting



Principle 4

Expectation, Engagement of Directors

- Board members engaged in responsibilities of the Board
- Director contributes to governance
- Guidelines for terminating a Board member (more than term)

Engaged Board Members



- What does this look like?
 - Attendance at meetings
 - Prepared for meetings
 - Participate in discussions
 - Inquisitive
 - Supports the organization

Director Role Document

- Comments?

Director
The Board will hold Directors accountable for fulfilling the expectations outlined in this role description. A Director must be a person with ability, experience, judgment and integrity consistent with the needs of the organization. A Director must ensure he or she is in compliance with all governmental requirements including those set by the organization's regulators. A Director's duty is to protect the assets of the organization, honour the rights of the employees, stakeholders and creditors, and provide for financial health of the organization.

Principle 5

Effective Board Structure

- Clear responsibility for Board Chair
- Board Committees are appropriate
- Clear mandates for committees
- Committees meet and fulfill mandate
- Protocol for committee and Board activities
- Appropriate term limits for Board members – appropriate length of service balanced with need for Board renewal and progress

Work of the Board



- Work to be done directly by Board
 - Involvement of all directors
- Work to be done by Board Committees
 - Prevent overlap
 - Prevent gaps
 - Sufficient mandate for each
- Ensure appropriate mandates
 - Ensure work plan for committees to ensure that mandates carried out

Clear Roles and Responsibilities and Setting Board's Job



Principles for Good Governance

Getting the Job Done

A thick, dark blue horizontal bar with rounded ends is positioned below the subtitle.

Agenda

Getting the Job Done



- Effective decision making (principle six)
- Effective policy setting (principle seven)
- Setting organization culture (principle eight)
- Oversee risk management (principle nine)
- Executive performance management (principle ten)
- Effective communication (principle eleven)
- Accountability (principle twelve)

Principle 6: Effective Decision Making



- Board identifies its information needs
- ensures that management provides right information, right time to enable effective discussions
- Decisioning by Board is timely
- Board is united by decisions
- Board receives information to enable it to regularly assess performance of organization – at strategic level; operational level; financial



Effective Decision Making

- Management has all information – Board is enabled by receiving the right information on a timely basis – disabled if this isn't the case
- Need information at strategic level and operational level – assess progress on strategy; monitor fulfillment of business plan
- Need information to know fulfilling of stakeholder expectations – client, employees, funders

Robust Discussions

- Board needs to ensure robust discussions on issues prior to decisions/approvals
- Environment should encourage effective and challenging discussions
- Chair of Board can enable this
 - Allow for sufficient discussion
 - Don't permit divergent special interest tracks
 - Don't quash discussion due to personal bias



Principle 7: Effective Policy Setting

- Board ensures appropriate policies in place in areas of human resources, finances, operations, and code of conduct
- process for developing governing policy, approval, and thereafter updating
- Governing documents (e.g. bylaws) reviewed on sufficient frequency to stay attuned to needs of stakeholders and organization

Policy Framework



Policy Setting for Good Governance

- Focus Board on governing rather than managing
- Board establishes framework for management to manage within
- Framework consists of mission, vision, values, strategic directions, policy
- Set policy and monitor that policy being followed
- Leave management level policy to management

Governing vs Managing Level Policy

Governing Policy

- Directional in nature
- Provide clarity on what is permissive and what restricted
- What authorities are retained by Board and what is delegated to management
- Management abides by governing policy and exceptions to policy must be presented to Board to consider accompanied by sound rationale
- Governing policy recognizes subject matter expertise is at management level to do the how

Management Level Policy

- Sets out nature of how operations will be managed
- Must be consistent with governing policy
- Sets parameters for staff to operate within
- Staff expected to abide by management policy and any exceptions can only be granted by the CEO or his delegate and must be accompanied by clear and sound rationale

Governing Policies

Incorporating Document – Establishes organization; Board with fiduciary duty



Organizational Bylaws – establishes certain parameters regarding Board



Board of Directors – Roles and responsibilities of Board



Strategic & Business Planning	Appoint, Monitor Senior Mgmt	Communications	Oversee Enterprise Risk	Integrity of Controls & Information	Governance Practices
Governing Policies					
Mission, vision, values	Hiring of CEO	Communications policy	Enterprise risk approach	Asset protection	Board Committee terms of reference
Accountability statement	CEO Authorities	Reporting to stakeholders	Regulatory risk	Financial parameters	Trustee, Chair, Vice Chair roles
Strategic planning approach	Exec development & succession plan	Transparency	Staff safety & work environment	Internal Audit Mandate	Trustee Code of Conduct
Parameters for operations (balanced scorecard)	CEO performance & accountability process	Advocacy	Investment risk framework	Suspicious reporting	Engaging advisors ¹



Managing Policies – Responsibility of Chief Executive Officer

Principle 8: Setting Organization Culture

- Board establishes values for the organization
- Sets the 'tone from the top'
- Processes to provide for the organization and people of the organization to operate consistent with corporate values
- Monitors for values being fulfilled, adhered to, honoured

“Tone at the Top”



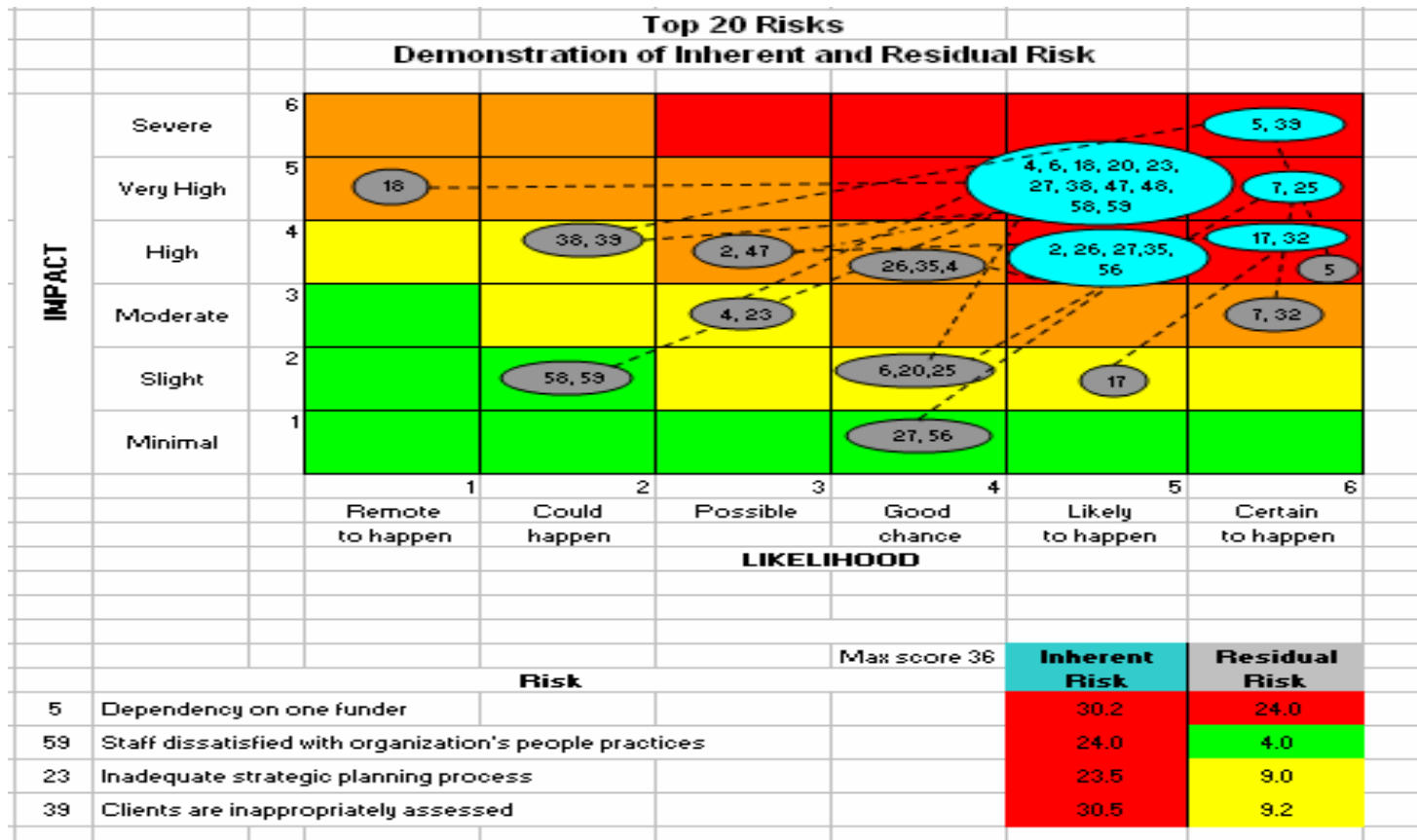
- Board sets the integrity of the organization
- Business ethics of the organization
- Codes of conduct for Directors, for management, for staff
- Does Board show concern for integrity, ethics, honouring the organization's values
- Ability to handle difficult situations
- Willingness to be held accountable for actions

Principle 9 Risk Management



- Process for identifying principal risks – strategic, government policy, environmental, social, operational, people, infrastructure
- Hold management to implement appropriate systems to manage risks
- Stay apprised to changes in external environment and implications to organization
- Understand risk tolerance
- Set policies as appropriate

Risk Map – Inherent, Residual



Principle 10: Executive Performance Management

- Clear process for selection and then annual performance review of CEO
- Performance review designed to consider multiple dimensions such as feedback from stakeholders (clients, funders, employees), progress on strategic plan and business plan
- Performance appraisal process for other staff is responsibility of CEO
- Board ensures there is succession plan for senior positions

The Process



Includes:

- Setting objectives
- Clear constructive input from key informants
- Review accomplishments and areas for development
- Establish goals and actions plans for next appraisal period

The Challenge – Chair's comfort in conducting the meeting

Benefits

- Providing well documented performance appraisal following a clear well understood process provides:
 - Clarity of understanding
 - Better communication between Board and executive director
 - Identification of opportunities, challenges and areas of concern at early stage
 - Achieves agreement on priorities and goals

Setting the Working Partnership

- Board has one employee
- Relationship with other staff – limited one on one but have accountability as stakeholder group
- Provisions for sensitive reporting of issues
- Authority of CEO
 - Hiring, termination
 - Compensation
 - Purchasing, contracts

Setting the Working Partnership

- CEO in nominating process
 - Identifying candidates
 - Interviewing candidates
- Social relations between Directors and CEO
- Social relations between Directors and other staff of organization



Principle 11: Effective Communications



- Board establishes a communication policy
- Board ‘speaks with one voice’ to CEO and stakeholders
- Board ensures sufficient reporting to stakeholders to inform them on performance of organization and of the Board

Effective Communications

- Be clear on who speaks on behalf of the organization; who speaks on behalf of the Board
- Generally the CEO is spokesperson for the organization
- Individual Directors should not be speaking on behalf of the organization

Principle 12

Board Accountability

- Board conducts self-assessment of its performance – Board, Board Committees
- Gather input on how to improve processes
- Process for individual accountability to be assessed

Board's Performance Review

- Various techniques available
 - External assessment
 - Self assessment
 - Board survey
 - Management's feedback
 - Whole Board
 - Board Committees
 - Individual Directors – by Chair; Peer review



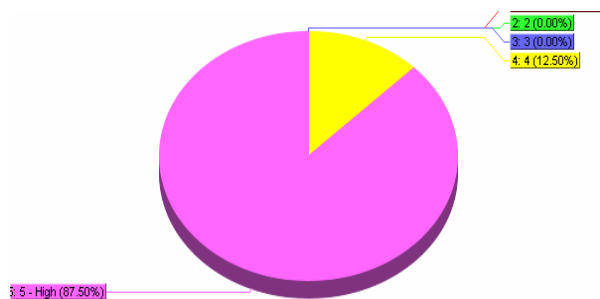
External assessment of Board

- Evaluative criteria set
- Look for demonstration of how the criteria are met
- Documents, interviews, surveys
- Is Board operating effectively, does it understand its accountabilities, does it provide for effective operations
- Most robust option

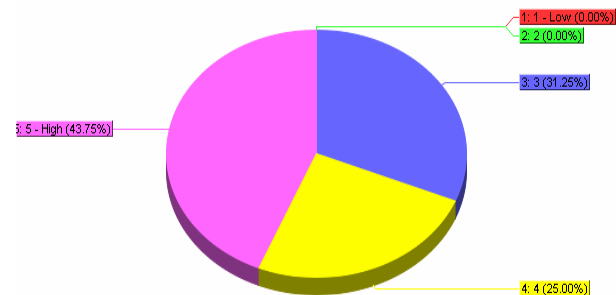
Governance – Facilitated Self-Assessment

1. The responsibilities of the Board are clearly set out and are consistent with the mandate of the organization.

Desired State



Actual State

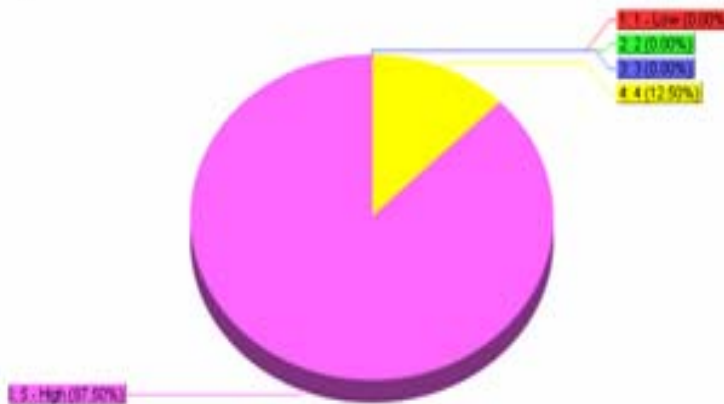


● = very high ● = high ● = medium ● = low ● = very low

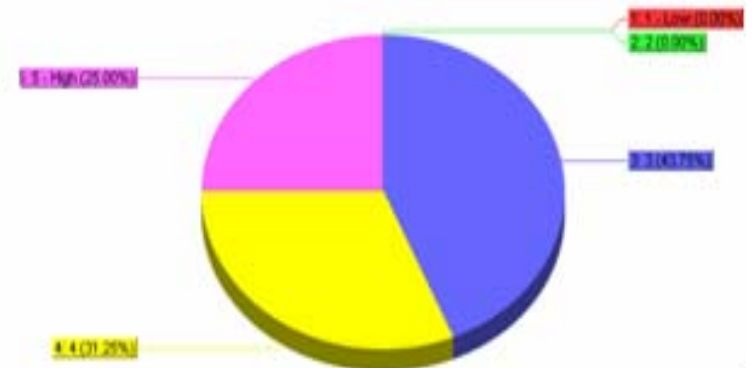
Governance – Facilitated Self-Assessment

2 The Board is effective in balancing its role in strategy and role in overseeing operations.

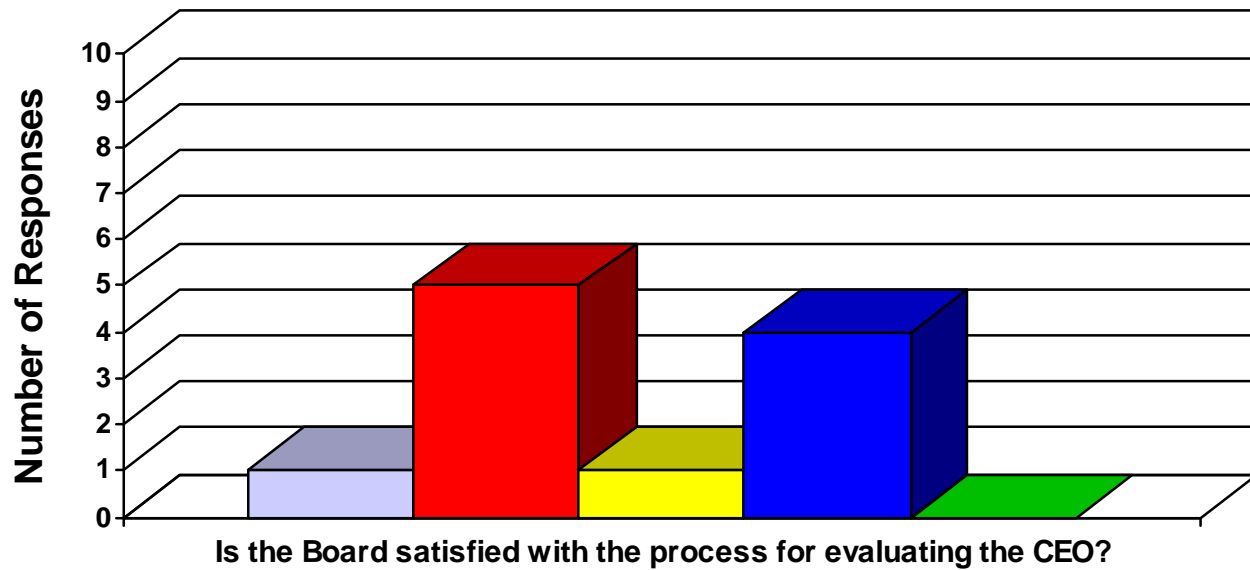
Desired State



Actual State

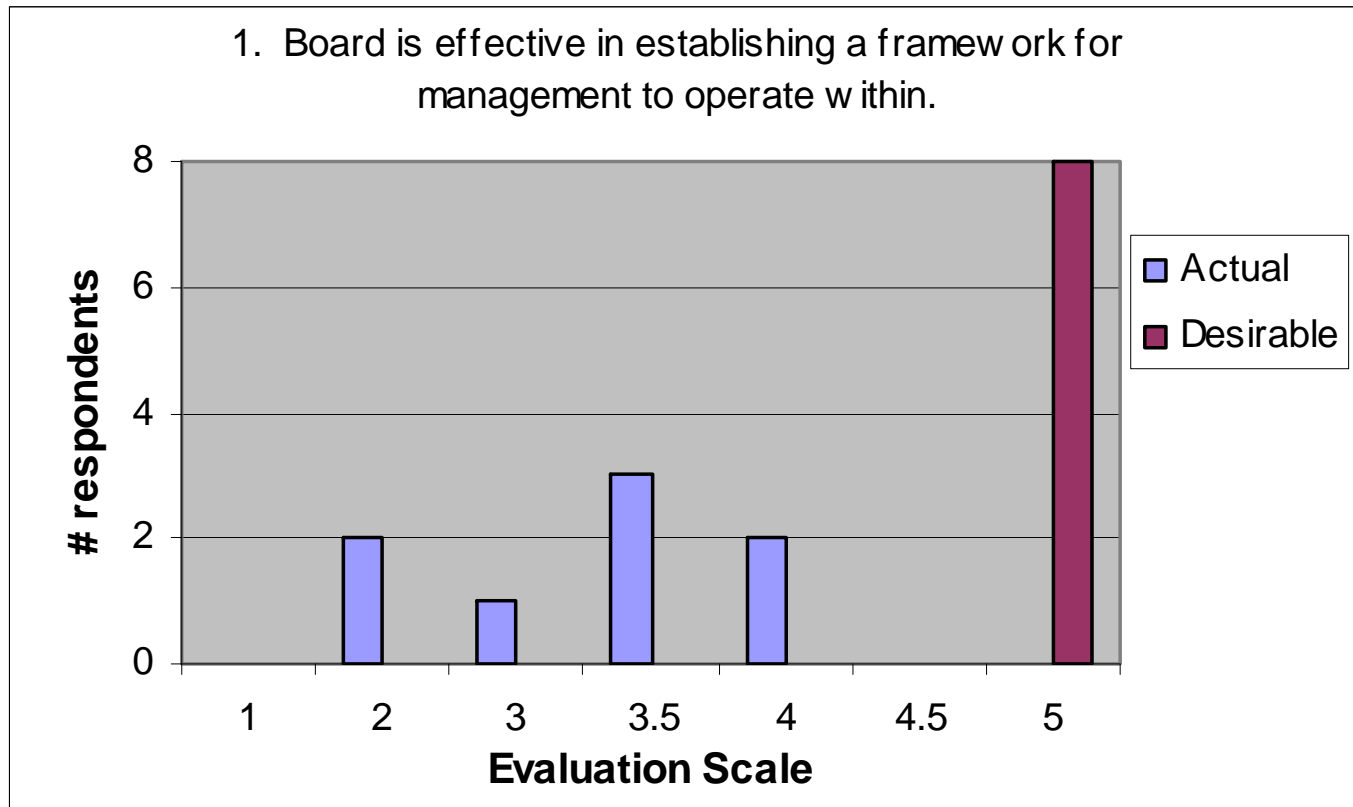


Governance – Facilitated Self-Assessment

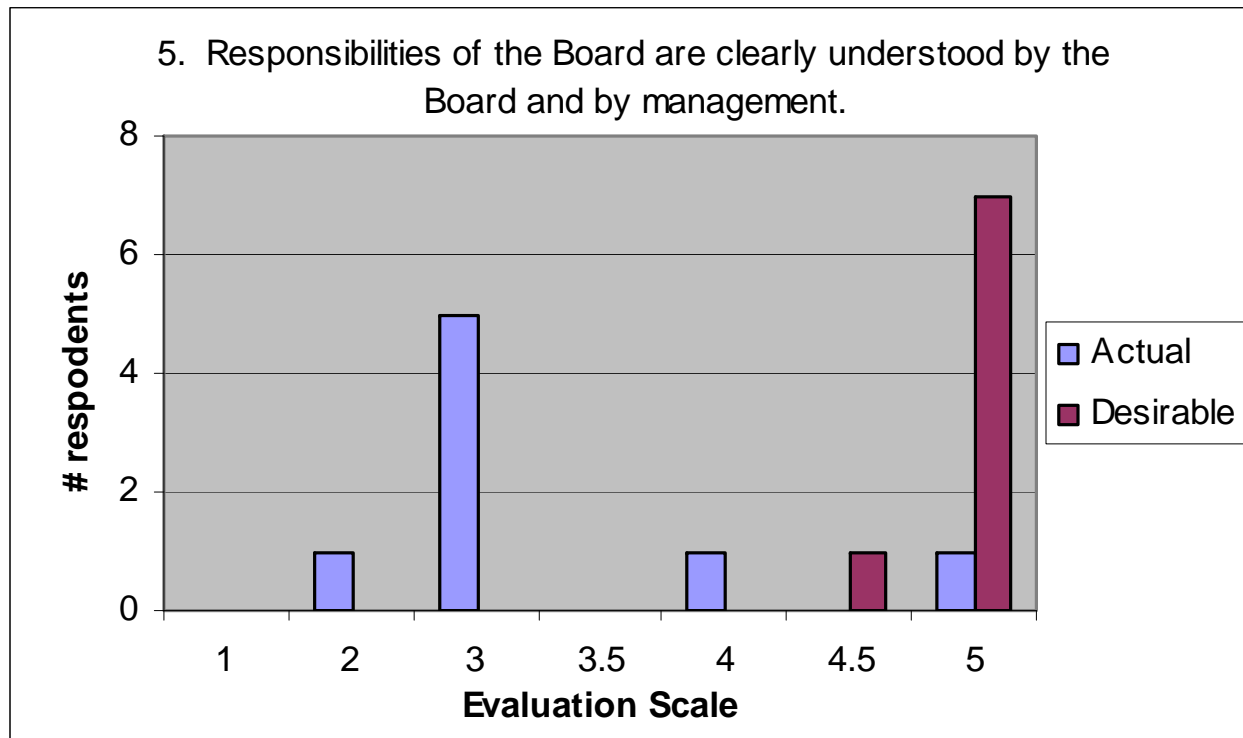


□ DK □ Not Satisfied □ Somewhat Satisfied □ Satisfied □ Very Satisfied

Management Perspective of Board



Management Perspective of Board



Accountability

- Assess performance on Board's role
- Same for Board Committees
- Also for Directors
- Everyone has a job to do and it is important that they get feedback on doing the job
- Needs to be conducted with respect
- For whole Board and Board Committees, imperative to take action to improve on areas identified as weak
- Merit to using an independent facilitator

Accountability through Evaluation

- Still not universally practiced
- Some Board members adverse to an evaluation
- However accepted view that all people need to be evaluated on how they do the job
- Evaluation practices for Board members have moved from informal “chats” with Chair to self-assessment evaluation and now to full feedback process including input from fellow Board members and executive management

Indicators of poor Board performance

Lack of documented responsibilities for Board and individual members	Lack of involvement in review of and approval of strategic plan
Not acting as unit	Not enforcing/following up on decisions
Managing rather than governing	Not having right skills & experiences
Failing to exercise duties regarding oversight, ethics, compliance	Lack of orientation and ongoing education for Board members
Absence of performance review of CEO	Negative relationship with CEO
Information to Board not complete/logical	Lack of term limits or termination process
Unclear authorities	Overwhelming or too restrictive agendas
Committees not effective	Lack of succession planning

Getting the Job Done Questions?

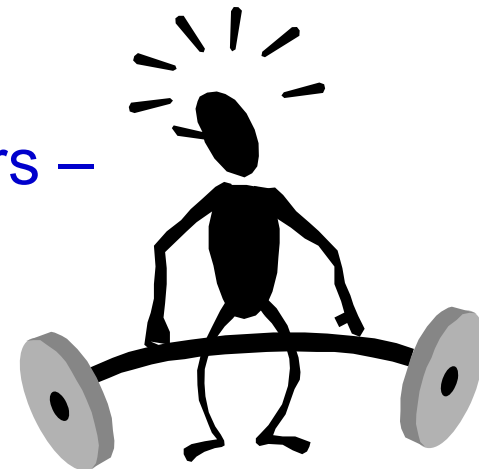


Principles for Good Governance Summary

A thick, dark blue horizontal bar with rounded ends is positioned below the title text.

Principles for good governance

- Focus is on being a good Board and following good governance
- Means doing the right job right – requires competency, training, established practices
- Govern not manage – oversee not do
- Need to learn to be a Director
- Helping people become effective directors – education, mentorships



Good governance

- Board Chair needs to be a facilitator and enabler
- Expectations, practices need to evolve with the organization
- Team work is important – the Board itself; and the Board and the CEO
- Accountability – of the Board, of the CEO
- Involves some heavy lifting

The People Side of Good Governance

- Teamwork is imperative
- Understand roles
- Understand responsibilities
- Respecting practices
- Dealing with the people issues



Summary

Good governance takes work

Directors are made, not born

Good governance is empowering for the organization and management

Good governance permits operational effectiveness

Principles for Good Governance

- Thank you
- Contact:
fbooker@bookerandassociates.com
- Website: www.bookerandassociates.com