GREAT GOVERNANCE

A Practical Guide for Nonprofit Boards

Gallagher

Preface

Great governance creates the conditions in which those who deliver and manage services can be successful.

Find a total of 23 actions organized within these seven strategies.

This guide offers seven essential benchmark strategies to encourage superior board work.

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Introduction

Excellence in nonprofit governance has never been more necessary as our social sector enters an era of growing public calls for better services and transparency within a fragile economy. The general public and our many stakeholders are demanding from us more for less to maximize the value of available resources.

There is a wealth of information already available on governance in general and about nonprofit governance in particular—especially nonprofit services, advocacy, housing, credit unions, colleges and hospital/system governance. That's good in theory, but for busy leaders, the volume of guidance available can be overwhelming and of limited practical value.

At Gallagher, we believe that busy nonprofit leaders want the answer to a very basic question: Among the 50 to 100 best practices that permeate the literature, which are likely to make the most difference in achieving excellence in governance?

This document aims to answer that question. Intentionally, it does not cover all necessary basic governance practices. In addition, it doesn't include what some may consider cutting-edge practices that have not been well-tested or chronicled in governance literature. Consequently, the guidance presented here should be updated periodically as the state of the art and science of governance evolves.

With that caveat, we have designed this practical guidance to inspire nonprofit leaders and organizations to face the future with confidence.

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The seven benchmark areas identified in this document:

1. **CEO Leadership and Commitment to Great Governance**
2. **Board Chair Leadership and Commitment to Great Governance**
3. **Highly Committed and Capable Board Members**
4. **Healthy, Productive Board Culture**
5. **Effective Oversight of Organizational and CEO Performance**
6. **Continuous Governance Evaluation and Improvement**
7. **Board Leadership and Succession Planning**

The order in which the benchmarks are presented should not be interpreted as the order of importance. All are necessary for great governance.

Great individuals involved in governance come and go, but what sustains great governance are the governance structures and processes that leaders have put in place.

Each benchmark includes a rationale followed by recommended steps to achieve it, for a total of 23 across all the benchmarks.

The appendix to this document provides checklists that board leaders and executives can use to conduct (1) a snapshot assessment of meeting practices and (2) an annual assessment of other, more foundational practices. These two checklists were derived from the key steps, with the relevant benchmark noted after each item on the checklists.

Benchmark 1

CEO Leadership and Commitment to Great Governance

High-performing organizations are led by CEOs who appreciate the benefits of great governance and display the confidence and humility to consistently promote it.

RATIONALE

Behind great governance stands a CEO who understands the value of demanding yet respectful board independence and oversight, thoughtful and probing questions, and diverse perspectives. While strong boards will not hesitate at times to discuss tough issues for management to address, the best CEOs understand that constructive challenges will contribute directly to organizational effectiveness and success.

KEY ACTION STEPS

1. **Organizational Support for Governance**

   A specific member of the senior management team should be assigned to the board and to each of its committees. The senior management team member ensures that the necessary meeting preparation materials are distributed in a timely manner and that appropriate matters discussed receive timely and effective follow-up action.[1]

2. **Executive Sessions**

   The CEO should encourage the board and committees to meet regularly in executive sessions to explore opportunities for governance improvement. Discussion of CEO or other management performance in such sessions should be included only on an as-needed basis. The CEO should routinely participate in parts of board executive sessions and should receive a debrief from the board chair on those parts the CEO did not attend.

[1]Many nonprofit boards are exploring the establishment of board portals that offer members 24/7 access to important information they need to expedite and enhance their knowledge and decision-making.

Benchmark 2

Board Chair Leadership and Commitment to Great Governance

Great boards feature thoughtful and proactive chairs who are never satisfied with the status quo. Such chairs stimulate engagement when the board is passive; effectively lead the governance policy, strategy and oversight processes; and strive to instill all attributes of high-performing boards in a well-planned manner.

RATIONALE

Board chairs have a direct and significant influence on board performance. The board must take intentional steps to enhance the chair's effectiveness and to identify and prepare future board leaders. Experience has shown that ineffective or inconsistent boards often have personality-driven, rather than value-driven, board chairs.

KEY ACTION STEPS

3. Clear Delineation of Board Chair Roles and Responsibilities

Like a job description, the duties of the board chair should be clearly delineated in writing and approved by the board. The duties should include facilitating effective governance rather than directing or controlling the board (or even worse, usurping the CEO's role); encouraging collegiality, teamwork and cohesiveness among the board members; monitoring group dynamics; and helping to articulate and enforce group norms. The board chair's role in relation to that of the CEO should be clearly articulated and understood by all parties. The board chair's role document should be reviewed by the board regularly and updated as needed.

4. Board Leadership Development

Recognizing the importance of effective board and committee leadership, the board should require that new chairs be groomed for their positions. Rather than simply relying on on-the-job training, the board should require that new chairs undergo a formal orientation program. Further, the board should expect new chairs to proactively expand their knowledge and leadership skills.

5. Board Chair Evaluation

The board should establish a regular, formal, criteria-based evaluation process for the board chair, as well as ensure ongoing feedback and suggestions from board members and the CEO regarding the chair's performance and ways to improve meetings. The timing of the formal evaluation should be linked to that of his or her consideration for reappointment as board chair.

6. Board Chair Tenure Limit

The board should establish a limit on the number of terms an individual may serve as board chair, which may or may not differ from the term limits for other board members.

Benchmark 3

Highly Committed and Capable Board Members

Great boards consist of persons who collectively display the values, competencies and dedication required to govern the organization effectively. Their composition is sufficiently diverse and independent to ensure a broad range of perspectives and robust dialogue. Great boards also commit to continuous improvement of board members' knowledge and leadership skills, both individually and collectively.

RATIONALE

A board's composition — the talent around the table — is a critical determinant of board effectiveness. High-performing boards are, among other things, diverse, independent and highly engaged. Board composition can no longer be left to chance or intuition. Great boards employ an intentional process that defines and evaluates both individual board members and their collective competencies. Considerations include such attributes as unflinching integrity, respect for others, humility and self-reflection, as well as regard for the organization's values, culture and professional norms. Finally, members must display a willingness to challenge others while working to reach practical compromise.

KEY ACTION STEPS

7. Effective Board Size

Unless otherwise prescribed or required, board size should range between nine and 17 members. Smaller boards are unlikely to deliver a sufficient mix of expertise and perspectives, while larger boards tend to be unwieldy.

8. Term and Tenure Limits

The board should specify that individual members serve three-year terms, with a maximum of three consecutive terms, in order to ensure both board integrity and continuity.[2] Reappointments for another term should be extended only to those members who have received an affirmative finding on their performance on the board, taking into account both peer and self-evaluations.

9. Board Composition

The board should continuously assess its strategic needs for talent around the table (i.e., values, skills, knowledge, behavioral attributes and perspectives). Boards should seek and weigh stakeholder input and compare those needs to the current board profile — including projected board turnover — to determine current and upcoming gaps requiring recruitment and/or education. The board should consider including at least one member who does not reside or work in the same service area to guard against insular/parochial perspectives or groupthink.

[2]The first term allows new members to come up to speed. In the second term, members should become fully functional, while in the third, they could potentially rise to a board leadership position.

RATIONALE

Consistently high levels of knowledge among all members of the board and shared commitment to ongoing education are cornerstones of effective governance. Great boards understand that continuous development of their individual and collective capabilities is a basic responsibility.

KEY ACTION STEPS

10. Board Member Recruitment

Board member recruitment should be a year-round activity, delegated to a governance committee that makes regular reports to the board. The committee should establish and maintain a candidate pool of those who might be willing to serve on the board and are able to meet specific new or continuing needs for talent. The committee might consider those serving on board committees in an advisory, ex officio role.

11. New Board Member Orientation

The board should employ an orientation program that provides new board members with a solid base of knowledge about the healthcare field, their organization, their duties as board members, and the role and relationships of the board and management. The orientation program should represent a well-organized learning process, not a single event. For example, the process may pair a new director with an experienced board mentor to accelerate the new board member's learning process. The board also should establish a process for new board members to evaluate the orientation program six and/or 12 months after completing the process.

12. Need-Based Board Continuing Education Program

With oversight by a standing board committee and strong support by management, the board should participate in a need-based educational program, some aspects of which may be provided externally. All components should be designed to enhance the competencies of board members, taking into account individual and collective assessments. The board should include components to enhance relationships with management and regularly evaluate the effectiveness of all components.

Benchmark 4

Healthy, Productive Board Culture

Great boards intentionally focus their time on critical issues, dedicating substantial time to strategic thinking. In addressing critical issues, they find ways to create healthy tension, constructive debate and respectful disagreement in order to consider diverse perspectives in the decision-making process.

RATIONALE

Nonprofit organizations face many complex and challenging demands. These demands can lead boards to focus almost single-mindedly on immediate operational issues or other matters of the day. Great boards invest most of their time and energies looking forward while evaluating those future challenges and opportunities in relation to current and past experiences. Great boards are generative thinkers, trying to understand developments in a broader context in order to gain incisive insights. They engage in healthy debates, questioning assumptions, organizational values, culture and capabilities. They ask themselves if they are asking themselves the right questions.

KEY ACTION STEPS

13. Agenda Planning

Taking into consideration the overall board schedule for the year, the board chair and CEO jointly set the meeting agenda in advance, dedicating a substantial portion to strategic issues or ideas.

14. Agenda Construction

The agenda should be annotated with a clear description of the issue and purpose of each agenda item and/or required action. Boards should allocate time proportionate to the importance of the matters to be discussed. Consequently, meetings should begin with agenda items that require action at that particular meeting.

The next significant block of time should be devoted to learning about and deliberating critical strategic issues that are likely to require action in the intermediate to longer-term future. The board chair should come prepared with specific questions to focus those discussions. Routine presentations and reports can follow the action items and strategic deliberations, with as many as possible handled via a consent agenda. As appropriate to the agenda, committee chairs should have the opportunity to make presentations. The agenda should include an item at or near the end of each meeting to identify and assign follow-up actions.

RATIONALE

KEY ACTION STEPS

15. Preparing to Make Major Decisions

The board should rarely, if ever, make decisions on highly significant issues the first time they appear on the agenda. Adequate time should be provided for discussion at one or more meetings, with the decision made at a subsequent meeting. As noted earlier, staff should provide the necessary information well in advance of discussion. The board should consider including at least one outside member to stimulate robust discussion on major issues. In addition, the board chair should use one or more of the following techniques to stimulate effective discussion:

- In advance of the meeting discussion, assign alternative positions to two or more groups, requesting each group to make the best case for its position (irrespective of members' personal views).
- Appoint devil's advocates on a rotating basis.
- Encourage all board members to express and debate their diverse opinions and even, on occasion, register minority votes during the meeting.

16. Oversight of Committee Work

Where committees are needed, the board should establish charters spelling out their charges, which should relate to the organization's strategic priorities approved by the board. In addition, the board should challenge committee recommendations wherever appropriate and require periodic assessments of such committees by their members and the full board.

Benchmark 5

Effective Board Oversight of Organizational and CEO Performance

Great boards demand business plans linked to strategic priorities with quantified, auditable and evidence-based targets wherever possible. They use these metrics to carry out their oversight responsibility, monitor the performance of the organization and the CEO, and demand corrective actions where indicated.

RATIONALE

Stakeholders, donors and the public are calling for greater accountability, transparency and oversight by boards of nonprofit organizations. In this environment, boards must review and approve plans and specific targets for the performance of the organization and the CEO. Such oversight helps ensure that systems are in place to measure progress toward those targets in an accurate and timely manner, allowing for corrective action where indicated.

KEY ACTION STEPS

17. Organizational Performance Plans and Targets

The board should annually review and approve the enterprise operating plan, including specific quantified objectives for all key areas of performance, including community benefit, finance, client or beneficiary satisfaction, staff satisfaction, and quality of services. Further, the board should review the human resources plan for management and staff development and succession. The plan, while approved by the board, should represent the collaborative work product of the organization's management and the board — implementing the strategic direction that the board has approved.

18. Performance Reports

In such forms as a balanced scorecard or dashboard, the board should regularly receive updates on performance in relation to established targets. Reporting should provide clear, understandable information regarding actual performance against planned results, highlight problem areas and provide the basis for determining corrective action. Performance reporting should be designed to provide focus to the board's oversight accountability, translating data into actionable information rather than obfuscating key variables in the camouflage of data volume.

19. CEO Performance Oversight

The board should establish clear performance expectations for the CEO for the coming year and beyond, consistent with the organizational performance targets, and including personal and professional growth goals. A formal CEO performance evaluation should be conducted at least annually,[3] with full board participation and CEO self-appraisal.

[3]More frequently if there are significant performance problems, and at the end of the first six months for a new CEO.

Benchmark 6

Continuous Governance Evaluation and Improvement

Great boards continuously evaluate their governance structure, practices and culture, taking action to improve their performance.

RATIONALE

Experience in many sectors has proven that ongoing evaluation and commitment to continuous improvement is a critical pathway to excellence. Unfortunately, research has shown that, far too often, board self-evaluation processes become pro forma exercises that do not produce meaningful changes in how boards are organized or carry out their duties.

KEY ACTION STEPS

20. Regular Assessment of Governance at or After Meetings

The board and committees should regularly assess and improve their performance. Staff should routinely administer a post-meeting mini-survey to board and committee members to assess the mechanics and results of each meeting. The chair and CEO or other senior manager assigned should jointly discuss the survey results to identify any need for follow-up discussion at a subsequent meeting.

21. Formal Governance Evaluation and Improvement Planning Process

With the aid of a governance committee, the board and committees should conduct and periodically reassess the effectiveness of a formal self-evaluation process. The process should compare the board's performance against preestablished goals and identify one or more actions for improvement in the following year — for the board as a whole, for each committee and for each board member. These actions should link to the board's continuing education and recruitment plans. Such an evaluation process should include the opinions of senior management and representatives of key stakeholders regarding the board's effectiveness.

Benchmark 7

Board Leadership and Succession Planning

Great boards insist on formal succession planning for the board chair position, for committee chair positions and for the CEO position.

RATIONALE

In the business world, higher education, credit unions and the healthcare field, abundant evidence indicates that succession planning for board leadership and CEO roles is generally poor and, in many organizations, virtually nonexistent. Lack of succession planning represents a failure in board leadership. However, some organizations execute on leadership succession planning exceedingly well in all sectors; these tend to be strong organizations with highly effective boards.

KEY ACTION STEPS

22. Board Policy on Leadership Succession Planning

The board should formally adopt a policy in support of competency-based succession planning for board leadership positions and the CEO position. The policy should outline processes for developing succession plans, regularly monitoring their progress and updating those plans as needed. The policy should also require the CEO to maintain succession plans for other senior management positions. Those plans should indicate the means by which specific individuals are to be cultivated for senior management positions (e.g., through mentoring and formal leadership development training) and the amounts budgeted for such cultivation. The board policy also should include protocols for succession in emergency situations.

23. Board Oversight of Leadership Succession Planning

The board, or a designated committee such as a governance committee, should collaborate with the CEO in identifying several organizations that have implemented first-rate leadership succession planning processes. Such processes are not commonplace, but they exist. The board should make every effort to learn from organizations that do this well to avoid reinventing the wheel. After the board has designed and approved a leadership succession planning process, the board or a designated committee should direct its implementation and review written reports on a regular basis.

APPENDIX

Snapshot Checklist of Board Meeting Practices

Snapshot Checklist of Board Meeting Practices (continued)

- ☐ Taking into consideration the overall board schedule for the year, the board chair and CEO jointly set the meeting agenda in advance, dedicating a substantial portion to strategic issues or ideas (Benchmark 4).

- ☐ Staff constructs the board agenda to allocate time proportionate to the importance of the matters to be discussed. Action items appear first, strategic issues and ideas second, and routine reports last. A consent calendar can handle many of the latter items (Benchmark 4). A balanced scorecard or dashboard report provides visibility to update the board on the organization's performance in relation to established targets, quantified wherever possible with respect to community benefit, finance, beneficiary or member satisfaction, staff satisfaction, and quality (Benchmark 5).

- ☐ The board discusses and makes decisions on major issues over two or more meetings (Benchmark 4). Staff distributes meeting preparation materials sufficiently in advance to provide adequate time for board member review (Benchmark 1).

- ☐ As appropriate to the agenda, the chair provides board committee chairs with opportunities to make presentations on matters to be discussed (Benchmark 4).

- ☐ The board chair uses specific techniques to stimulate diversity of opinions and constructive debate on major issues (Benchmark 4).

APPENDIX

Snapshot Checklist of Board Meeting Practices (continued)

- ☐ The board meets regularly in executive session to explore opportunities for improvement in meetings or other governance practices, discussing CEO or other management performance only when necessary. The CEO attends only part of these sessions as needed (Benchmark 1).

- ☐ Prior to meeting adjournment, the board chair identifies and assigns matters requiring follow-up action (Benchmark 4).

- ☐ Management responds in a timely and effective manner to matters identified and assigned for follow-up action (Benchmark 1).

- ☐ Staff administers a post-meeting mini-survey to board members on the meeting mechanics and outcomes (Benchmark 6).

- ☐ The board chair and CEO jointly review results of the board member mini-survey to identify any needs for follow-up discussion at the next meeting (Benchmark 6).

APPENDIX

Annual Checklist of Other, More Foundational Governance Practices

- ☐ The board chair and the CEO set an overall annual agenda/schedule for the year that identifies the timing of key strategy, policy and performance oversight matters to be covered (Benchmark 4).
- ☐ The role and responsibilities of the board chair are clearly delineated in writing, differentiated from those of the CEO, well understood by all parties, and reviewed and updated periodically as needed by the board (Benchmark 2).
- ☐ New board chairs and new committee chairs undergo a formal orientation program regarding their roles and responsibilities (Benchmark 2).
- ☐ The board chair undergoes a formal, criteria-based evaluation process timed to that of his or her consideration for reappointment (Benchmark 2).
- ☐ The number of terms that the board chair may serve is limited (Benchmark 2).
- ☐ The board's size is between nine and 17 members (Benchmark 3).
- ☐ Individual members of the board serve three-year terms, with a maximum of three consecutive terms (Benchmark 3).
- ☐ The board maintains a governance committee that (a) continuously assesses the board's strategic needs for talent in relation to the current board's profile, (b) determines gaps that are to be addressed through recruitment or education, (c) maintains a candidate pool of persons who might be willing and capable of meeting specific needs for talent and (d) taps the candidate pool as needed (Benchmark 3).

APPENDIX

Annual Checklist of Other, More Foundational Governance Practices (continued)

- ☐ The governance committee conducts a formal annual self-assessment process that compares the performance of the board as a whole, each committee and each board member against preestablished goals, identifying one or more actions for their improvement in the following year (Benchmark 6).
- ☐ The board uses a formal orientation program for all new board members and an ongoing need-based continuing education program for all board members (Benchmark 3).
- ☐ Assigned staff serve all board committees, and each committee maintains a charter that links its composition and purpose to the organization's strategic priorities (Benchmarks 4 and 5).
- ☐ The board annually reviews and approves the organization's strategy, operating plan and budget, as well as a human resources plan for management and staff development and succession (Benchmark 5).
- ☐ The board establishes and regularly assesses the annual personal and professional performance expectations for the CEO, consistent with the board-approved strategy, operating plan and budget (Benchmark 5).
- ☐ The board maintains an explicit leadership development and succession plan for each board leadership position and for the CEO position and regularly monitors progress in relation to the plans (Benchmark 7).
- ☐ The board requires the CEO to maintain succession plans for other senior management positions, which include programs and budgets for cultivating specific individuals for those positions (Benchmark 7).

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