NINE STEPS TO EFFECTIVE GOVERNANCE

Building High Performing Organisations

THIRD EDITION

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SPORT NEW ZEALAND

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FOREWORD

During the past decade the sport and recreation sector has undergone considerable change and all of those involved face significant challenges in getting to grips with the modern environment.

The lifestyles of New Zealanders, and therefore their patterns of participation in sport and recreation, are rapidly changing and the assumptions that underpinned sport as little as ten years ago may no longer apply. Some organisations have grown into businesses of scale, while others are taking longer to adapt to a different world.

The future and its inherent complexity can only be addressed with excellent leadership and governance. Now more than ever a board must deliver on its responsibility for sound planning, oversight and risk management.

Sport New Zealand has made a significant investment in governance development and now has a range of excellent resources for the sector to draw on. The Nine Steps is a cornerstone document that is in wide use in sport and across other sectors in New Zealand. This revision builds on our experience of the past six years and I am sure it will be equally well used.

I know that the many people who generously give their time to our boards are committed to developing strong leadership and future-focused organisations. Quality of governance remains a fundamental measure of confidence for Sport NZ as an investor.

I encourage you to use this and the other resources offered to further develop your leadership and to address the many challenges we all face.

Paul Collins
Chairman
Sport New Zealand

INTRODUCTION TO THE THIRD EDITION

This revised edition of the Nine Steps combines the previous two books into one edition. The majority of templates and resources have been moved online, where they can be updated more readily. In the six years since the first edition was published, this resource has been reprinted several times and downloaded on over ten thousand occasions. It is in use across New Zealand and offshore. We trust this update retains its usefulness to the sport and wider not-for-profit sectors.

In the intervening six years, many organisations have been through major structural change and this revision and associated resources discuss those processes. The policy templates are updated and new online materials are added on key topics such as decision making, selection policies, interviewing for the board, and governance reporting.

Together with this new edition, Sport NZ is releasing a revised online governance assessment tool with greater flexibility and ease of use. Sport NZ is also pleased to be a foundation investor in Appoint Better Boards. This online board talent portal has specific capability to recruit for roles and to build a list of people interested in sport board service.

Governance excellence is not easily achieved. This sector experiences many of the same challenges that hold back effective governance in other areas. Part-time board members face inherent difficulties in creating positive and effective teamwork and melding the disparate demands on their organisation. This means that board service can potentially be stressful, frustrating and unrewarding. In spite of the challenges, this need not be the case. People who agree to serve on boards do not set out to govern poorly. In the past ten years in particular, many organisations have actively pursued improvements in their governance structures and processes.

Good governance will always be a work in progress. Changes in the environment and unexpected challenges will regularly confront the board. Concepts of good practice change over time. This is not a 'recipe book' for good governance–there are no perfect or universal prescriptions. It is hoped that by understanding and applying a principled framework boards will be well grounded and capable of facing the changing world.

We hope you use this and other resources offered by Sport NZ to support your commitment to governance excellence.

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CONCEPTS, CHALLENGES, STRUCTURES AND CHANGE

One of the tests of **leadership** is the ability to recognise a **problem** before it becomes an **emergency** – Arnold Glasgow

CONCEPTS, CHALLENGES, STRUCTURES AND CHANGE

Governance concepts

Governance described

Governance is the process by which the board...

- ensures the organisation complies with all legal and constitutional requirements;
- sets strategic direction and priorities;
- sets high-level policies and management performance expectations;
- characterises and oversees the management of risk; and
- monitors and evaluates organisational performance;

...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.

The role of the board

In essence the board's role is to ensure the organisation is well managed, but not to do the managing.

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.

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.

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, preserving and growing these for the current and future generations. Its stewardship should protect the organisation from harm and steer it towards positive achievement (desired organisational performance).

Directors' responsibilities

Board members are fiduciaries who share collective and individual 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.

Board members are required to act in the best, long-term interests of the organisation as a whole, even if they feel an obligation to represent particular interest groups. This doesn't mean the board shouldn't listen to, or follow the advice and direction of, its current stakeholders, but may mean boards have to make decisions that contradict the wishes of stakeholders.

Legal and moral duties

The Incorporated Societies Act 1908, Charities Act 2005 and Charitable Trusts Act 1957 do not specifically refer to the legal duties of board members or trustees of not-for-profit entities (and most sports organisations are incorporated societies or trusts under these Acts). However, case law suggests that the same or similar duties required of directors as defined in the Companies Act 1993 should apply to directors of incorporated societies and trusts. The following is a brief summary of directors' duties in the Companies Act:

1. A director must act in good faith and in the best interests of the company.
2. A director must exercise a power for a proper purpose.
3. A director of a company must not act, or agree to the company acting, in a manner that contravenes this Act or the constitution of the company.
4. A director of a company must not agree to the business of the company being carried on in a manner likely to create a substantial risk of serious loss to the company's creditors.
5. A director of a company must not agree to the company incurring an obligation unless the director believes at that time on reasonable grounds that the company will be able to perform the obligation when it is required to do so.
6. A director of a company, when exercising powers or performing duties as a director, must exercise the care, diligence and skill that a reasonable director would exercise in the same circumstances.

7. A director of a company, when exercising powers or performing duties as a director, may rely on reports, statements, financial data and other information prepared or supplied, and on professional or expert advice given by certain people (an employee of the company, a professional advisor or expert, and any other director or committee on which the director has not served). In relying on such advice and information, a director must act in good faith and make proper inquiry, if the need for inquiry is indicated by the circumstances. A director cannot rely on advice and information if they have knowledge that such reliance is unwarranted. Courts will examine the information provided by the professional advisor, and the other circumstances of the advice, to determine whether it is appropriate and reasonable for the director to rely on the advice from an external advisor.
8. A director of a company must, as soon as he or she becomes aware that they are interested in a transaction or proposed transaction with the company, ensure it is entered in the interests register.
9. Without the informed consent of the organisation, directors must not place themselves in a position in which their personal interest or duties to other persons or circumstances are likely to conflict with their duties to the organisation. If a director of a company has information in their capacity as a director or employee of the company that would not otherwise be available to them, they must not disclose that information to any person, or make use of or act on the information, except:
   (a) for the purposes of the company; or
   (b) as required by law.

A board member's moral duties relate to those matters that, while not prescribed in law, it is still incumbent on them to exercise in the interest of the organisation's reputation, its responsibility to its members and other stakeholders, and that would, under normal circumstances, be expected to be carried out in an acceptable manner.

Liabilities

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 absolve a director from shared responsibility, accountability or liability.

Directors' indemnity

Under certain circumstances, directors can be held liable for the organisation's financial failure or its failure to meet certain legal requirements. A directors' and officers' liability insurance policy protects the personal liability of board members. However, it is only valid where the director/s concerned acted with honest intent. Personal liability insurance also usually contains similar exclusions.

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

Models and theories of governance

There is no one 'right' or 'best' way to govern

There is no one approach that will fit all organisations all the time – every organisation is different, their situations and circumstances vary, cultures are diverse, and structures and histories are unique. The skills and commitment of directors differ greatly between and within boards. The stage of development or maturity of each organisation can also have a significant impact on its governance challenges and the way it applies its processes and systems.

It should be stressed, however, that 'governance is governance' whether of a small community-based organisation or a large multinational. This is evident in an emerging body of principles seen when successful governance is analysed. In countries as diverse as India, the USA, Canada, Italy, Australia and New Zealand, the basic building blocks of what is deemed to be good corporate governance are very similar.

A principled approach

Human nature and the chaos of many organisational situations often militate against the order, rationality and consistency needed to make a model work exactly as designed. Some boards (or more usually individual directors) rail against the perceived constraints imposed by models, preferring instead to respond to governance challenges according to circumstances rather than theory or principle. 'Structured' governance models may be the basis for developing principles from which useful 'hybrid' systems will evolve, but for such flexibility to produce effective results there must be a logically coherent set of principles that inform the design or choice of actions.

Although having a consistent methodology can be helpful, slavishly following it without a sound understanding of the underpinning principles will not serve the follower well. Governance, like any other organisational discipline, will deliver its benefits well when its users base their actions on sound, well-understood principles.

Core principles

Whichever model or approach is chosen, it should enunciate good governance principles that will endure because of their good sense and workability, including:

- The board exists to translate the requirements of the owners into management outcomes.
- There should be a separation between governance and management roles and accountabilities.
- There should be clarity about what the board expects or requires the chief executive and management to achieve.
- The board's operating practices and its delegation to the chief executive should be written down, not assumed.
- Other than in response to extraordinary circumstances, a board should honour its delegation to its chief executive.
- The board, in partnership with management, sets a strategic direction for the organisation; management designs the operational methods or means to achieve this.
- The board has a duty of care to the organisation that requires directors, individually and collectively, to carry out their role to the highest standard; that is, certain matters cannot or should not be delegated.
- The integrity of a board lies in its ability to speak with one voice about critical matters. Individual voices contribute to a better group outcome, but the voice must be united.

Typical stages of board development

Few boards begin life as fully developed governing bodies. Company start-ups often comprise a mix of operational specialists, investors and dedicated directors, where everyone is expected to contribute to a wide range of organisation circumstances and challenges. Not-for-profit organisations often start life on the back of a dedicated, sometimes crusading, individual who sees a cause or an unmet need that needs a champion, and a fledgling community organisation is born.

Start-ups in all sectors go through stages of development such as the following:

1. A fledgling, informal organisation is set up to meet certain needs or to respond to certain opportunities, often led by a visionary individual with a small group of supporters.
2. A legal entity is formed to protect those who invest time or money or, in the case of not-for-profits, so the fledgling entity can apply for and receive financial assistance from funding bodies.
3. The founding individuals recruit others to assist them in their endeavours. Everyone 'mucks in' to ensure the organisation gets a foothold on its intentions. Of necessity roles are often shared or blurred.
4. As the organisation gains traction, roles need to be more clearly defined. Paid staff are appointed, a board is formed and a future is plotted in the form of a strategic plan. The board might be small and comprise those who were originally recruited for their connections, money or special skills. There will almost certainly be some spill-over between governance and management at the board level, with systems somewhat loose and being developed 'on the run' as issues and challenges arise.
5. As the organisation consolidates and matures, formal systems must be developed at both board and operational levels. The board, up to now involved in both operations and governance, becomes a governing board.
6. Policies are developed, the delegation to the management is formalised, staffing systems are established and the board separates itself from all operations and settles into a pattern of operating that focuses on its proper role. Board members are recruited for their governance skills rather than for their association with the founder or the origins of the company or organisation.

All of this might take place over several years. It is an evolutionary process linked to the speed of development of the organisation or the challenges it faces.

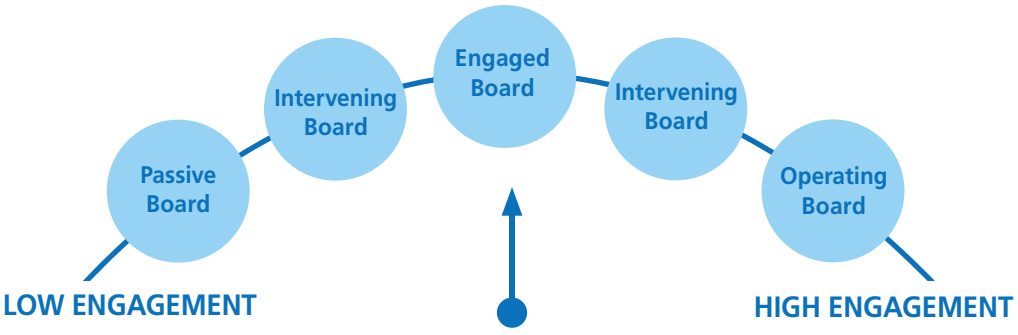
Models of board engagement

Five levels of engagement

There are varying levels of engagement by boards in their role. Some boards appear to be no more than cheerleaders for their chief executive and management; others seem to want to be the chief executive or management. David Nadler, in the *Harvard Business Review* (2004)[1], codified five levels of engagement.

1. **The Passive Board** does little more than ratify management decisions and actions, with little accountability and low board member participation.
2. **The Certifying Board** typically emphasises credibility to stakeholders, has several outside directors, certifies that the business is correctly managed and ensures the chief executive meets the board's requirements.
3. **The Engaged Board** provides insight and advice to support the chief executive and management team, accepts the ultimate responsibility to oversee the chief executive and organisational performance, actively engages in future direction setting and key decisions, seeks out valued expertise to bring to the board table, carefully defines roles and behaviours for the board, and sets the boundaries for board and chief executive responsibilities. This is similar to the Carver framework set out in the Nine Steps.
4. **The Intervening Board** is deeply involved in decision making, meets frequently, often at short notice, and is active in times of crisis.
5. **The Operating Board**, common in start-up organisations, makes key decisions for management to implement and fills gaps in management experience.

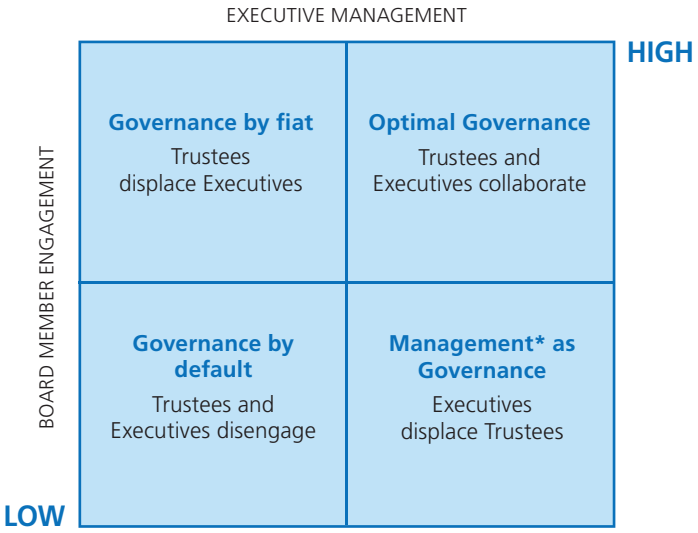
These might be placed on a continuum as follows:



[1] *Nadler, D A 2004, Building Better Boards, Harvard Business Review, May.*

Four quadrants of engagement

In their book *Governance as Leadership*[2], Chait, Ryan and Taylor offer another framework for the level of engagement of the board.



** Chait et al use the term Leadership to define management.*

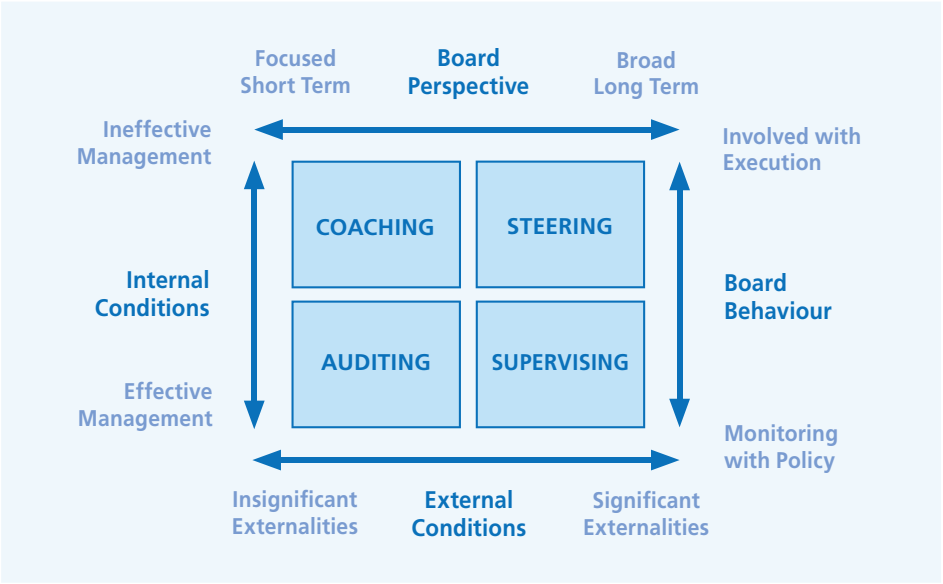
Although Chait et al address the four levels of engagement in terms of board and executive involvement in creative or strategic thinking processes, the matrix can be applied to the overall engagement of a board and management. When a board dominates its executives and rules by fiat, or absolute authority, loss of executive (CEO and senior staff) input, critical organisation thinking and decision making can be detrimental to the organisation and to the integrity of the decisions made.

Conversely, when a board is dominated by its executives, board members will disengage from their role and risk management by designing organisational responses that fit their personal aspirations, skill sets and interests rather than the best interests of the organisation and its owners. When both executives and board members disengage, the board becomes irrelevant. Chait et al see the collaboration of board members and executives as the basis for optimal governance. This equates with Nadler's concept of an Engaged Board.

[2] *Chait, R P, Ryan, W P & Taylor, B E 2005, Governance as Leadership, John Wiley & Sons Inc, New Jersey.*

Contingent governance

Another way to look at the emphasis boards adopt is found in Paul Strebel's[3] model of contingent governance, which adopts four core roles for a board – Coaching, Auditing, Supervising and Steering – and then places these in the context of contingent situations and requirements.



The way to remember the four styles is by the use of the acronym 'CASS' (Coaching, Auditing, Supervising and Steering).

Model of contingent governance

An exploration of these different ways of looking at board functioning is helpful to anyone who wants to understand why their board acts or positions itself in a particular way in response to particular circumstances. Some of these circumstances have been described in earlier sections or are evident in the models or descriptions.

[3] *Strebel, P 2004, The Case for Contingent Governance, MIT Sloan Management Review, Winter, 59-66.*

Common governance challenges and issues

The number of board members

The current governance literature suggests that the ideal board size is around seven. If it is smaller, diversity of opinion and experience can be lost, and the legitimate absence of one or two board members from a meeting can result in a serious loss of input into decision making and board dialogue. When boards are too big, for example with 10 or more members, individual contributions can be lost or more difficult to make. Absent members might not be missed and thus there is an excuse for non-attendance. Meetings can become more difficult to manage within acceptable time frames; and, with the trend towards remunerating board members of not-for-profit organisations, the cost of governance can get out of hand.

Board member tenure

Many boards in the sector experience persistently high turnover of members and chairs, creating the potential for instability. Regular turnover, which can be driven by constitutions that limit the tenure of both the chair and board members, makes it hard for a board to gel as an effective group and to develop its thinking about strategic issues, and for an effective relationship between the board and its chief executive to develop.

Some boards experience the opposite problem – 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 sets in over time. A board that seems antiquated or lacking the levels of professionalism expected in other parts of the organisation has a credibility problem. Trusts with no limit to board members' tenure and no electoral process are particularly vulnerable to this problem.

There should be a balance between those who have enough experience to provide institutional memory and continuity and 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 one or two further terms before a compulsory stand-down.

Ideally, the retirement and the recruitment of new members should be staggered, to prevent too much loss of institutional knowledge or too long a break in the work programme while new members are brought up to speed.

Election/confirmation of the chair

The chair should be elected or confirmed by the board at the first meeting after the AGM, and should retain that position for as long as they have the board's confidence. In some not-for-profit organisations, including sports organisations, the chair or president position has traditionally been elected by the members at large at a General Meeting. Voting members might feel this gives them control over the key leadership position on the board and hence over the board, but contemporary governance thinking sees the chair more as a 'servant leader' than as a 'controller'. Effective chairs guide dialogue, lead board thinking, facilitate the meeting process, and ensure board behaviour and actions are consistent with the board's governance process policies. Board members themselves are generally best placed to determine who, among their number, is most suited to fulfil this role. Election at an AGM can be more of a popularity contest than a careful consideration of skill sets.

Should staff serve on the board?

As a general rule it is inappropriate for staff, including the chief executive, to serve on the board of the organisation that employs them. Although it is common in the commercial world for CEOs to be on the board as executive directors or managing directors, many boards and CEOs now question this and choose to remain in their separate but interdependent roles. This ensures there is no role confusion, each can focus on their special contribution to the organisation and wear just one hat, and accountability is not compromised. The chief executive is already present at board meetings, and so the board can fill the additional position with another member who brings skills to enhance the board's effectiveness.

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.

When employees below the chief executive are on the board, they become, in effect, both the chief executive's employee and employer. This compromises the integrity of the chief executive-employee relationship, which can be detrimental for the chief executive, the board and the board's functioning.

Working boards – when there are few or no staff

In smaller organisations with few or no employed staff, including both small not-for-profit organisations and commercial 'start-ups', board members may need to fill both the governing role and all or part of the operational functions. This places a considerable burden on board members but it is the reality of governing a small organisation. Founding directors often find themselves not only investing their own money in the business but also filling both operational and directorial roles. As organisations grow and are able to employ specialist staff, board members can confine their involvement to governing.

Where board members do need to assist with operational tasks, they should appreciate that their role is as an operational volunteer, not as a board member offering assistance. This is important because when board members keep their board hat on, they remain the 'boss' of the lone or near-alone executive officer but operating in his or her space. The executive officer or staff member who the board member is working with must be able to direct or manage the board member volunteer and be responsible for reporting to the board on all aspects of the delegated authority.

Board leadership through tough times

Board membership is not for the faint-hearted. Boardrooms can be quite challenging, not at a personal level but at an ideas level. A good board should explore ideas offered by the chief executive officer and other board members. This means being willing to put your own ideas onto the table to be examined, and accepted or rejected.

Boards and board members are further challenged to step up to the plate when the going gets tough. Money might be in short supply, or there might be a scandal associated with the sport. The chief executive might be underperforming. Playing the sport might be seriously affected by a major natural disaster such as an earthquake or flood. At such times the board might be called on to make tough choices. No one should agree to join a board unless they are willing to contribute through good and bad times, attend every board meeting – apart from in exceptional circumstances – prepare thoroughly for board meetings, be involved in additional meetings and governance-related activities and, most importantly, contribute fully at board meetings.

The role of the chair is critical in tough times, and strong leadership is often called for. But even a strong leader needs support from those most closely associated with him or her. When the board is under pressure, leaders emerge. A tough time for the board is, however, a tough time for all board members, not just those who put their hands up to help.

When the board needs to step in and take over some management functions

Faced with a crisis involving the chief executive – for example, his or her unexpected loss at a critical time in the organisation's life, or the discovery of fraud or incompetence – a board might need to take over some of the operational roles or duties. Although this situation is rare, no board can afford to sit back and be reluctant to step out of its role. Such circumstances might mean that the board must step out of its role in order to execute its fiduciary duties under law or its duties of loyalty or stewardship for the best interests of the stakeholders.

Board conflict

Most board members want to govern well, but occasionally there is a member who either has questionable motives or seems dedicated to making someone's life (often the chief executive's) miserable. Even if this member appears 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. It can encourage understanding, impetus and integrity, but 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 is a vital attribute of competent board members.

Reasons for board conflict include:

1. Diverse membership – diversity can offer great benefits but can also increase the 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, voluntary board;
    - boards versus committees and other sub-groups; and
    - chair and/or board versus chief executive.
3. Different agendas – different visions/aspirations for the organisation, with the challenge of establishing a unified vision.
4. Different expectations – for example, 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 is 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 he or she is directly involved, a 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

It is important to distinguish between a director who is genuinely dysfunctional and one who is merely 'difficult'. Healthy dissent should be valued, but 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 chief executive's performance 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 cross-purposes, split into opposing camps, played off against each other;
- obsessive discussion – the board is distracted by this board member's preoccupation 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; and
- apathy – the board silently shrugs its shoulders and shuts down.

Possible preventive strategies

- Understand the cause of the problem.
- Select directors carefully.
- Induct effectively.
- Conduct individual board member performance assessment and follow up with professional development.
- 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.
- 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 goodbye.

A disruptive perspective on governance

This is a difficult situation to manage. It is not uncommon to find a board that is dominated by one director, perhaps the chair, who, by strength of personality and conviction, persuades the board to adopt his or her way of governing when that 'way' is dysfunctional, outdated or simply wrong. Often their idea of good governance is based on past experience characterised by ad hoc responses or interventions. Because their ego is often tied up in their dominating assertions, there are no quick or easy ways to persuade these people that there is a better, more effective way.

A board facing this situation has two options: go with the dominant but ill-informed board member and risk inevitable board malfunction, or confront the problem. Confrontation should not have a personal focus but adopt a principles-based 'remainder of the group' position that says there is a better way, leaving the individual with the choice of agreeing or leaving the board.

An external governance specialist can help by depersonalising the discussion and offering independent advice based on professional experience. As part of that process, formal individual evaluation of all directors can be a useful tool.

Other typical governance challenges

Many boards have made great progress over recent years, but the challenges listed below are still very relevant, and few, if any, are unique to the sector.

Complex/confusing structures

Many organisations have complex and long-standing 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 historical 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 primary role is to direct and exercise control over their organisation, and know they should do this via a policy framework, but some never quite get around to it and others reject what they consider an unjustified formality. As a result, many boards work hard, but on the wrong things.

Inadequate or 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.

No training or preparation

Still too few directors in the sport and recreation sector receive governance training.

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. So major policy and directional issues go unresolved or even not debated as boards grapple with matters which are (or should be) the responsibility of chief executives and their staff.

Recruitment of the wrong types of expertise

Some 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.

'Leaky' or unclear accountability

Even after they have appointed a chief executive as their interface with the organisation, some 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.

Diffuse authority

It is still common to see board-chief executive partnerships in which the authority and responsibilities of each party have not 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 also create problems.

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.

A passive or ineffective approach to succession

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

A short-term and retrospective bias

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

The 'urgent' crowds out the 'important'

Not knowing what is important and what is merely urgent can mean major policy and directional issues go unresolved and small (usually operational) details are debated at length.

Being reactive rather than proactive

Many boards become distracted by external 'noise' or staff initiatives that are not related to the governance role.

Reviewing, rehashing and redoing

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

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'). They focus on measures of activity or busyness at the expense of securing appropriate results and outcomes.

A conformance/performance imbalance

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

Low performance standards

Most boards state that they expect the highest standards of performance and achievement from their chief executive and staff, but few boards hold themselves to pre-agreed and regularly reviewed performance standards – with "we're just volunteers" being the common default position.

Board expectation/management resource imbalance

Few organisations have the luxury of large management resources, with staff often performing multiple roles. This 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.

Inadequate prescriptions

Some boards are well aware of the issues highlighted above, but their responses are often ad hoc. These short-term remedies often become problems in their own right.

Most board members are well motivated with good intentions

There is no question that most board members would like to see their boards functioning more effectively and their personal contributions enhanced. Governance failures are more often a problem with process rather than people. Many boards lack a clear framework for determining what they should focus on and what processes they should apply to be successful.

Board committees

Before discussing board committees it should be recognised that there might also be operational or management committees. They each have separate roles, functions and membership and the two should not become confused or entangled. Board committees are established to help the board do its work. Operational committees assist the chief executive to do his or her work. Staff should not be members of board committees (although they might advise and otherwise assist the committee) and board members should not be members of operational committees. The latter, however, is not always practical. As discussed above, when board members help at the operational level they do so without any board authority.

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 to good governance.

Not-for-profit boards are notorious for overusing committees.

This has partly evolved from bygone days when few trained or qualified managerial staff were available to manage community-based organisations. Board members often had to fill skill gaps in the organisation through a special position on the board or on a board committee designed to address a particular operational need for which there were no specialised staff. Many managers in the not-for-profit sector tend to have appropriate training in their work, making specialised board committees or portfolios unnecessary.

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

Directors who aren't members of a particular committee can feel excluded, which 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 can 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.

Key principles for committees

- Is this board work or should or can the work of the proposed committee be delegated to staff via the chief executive?
- Is this work already within the chief executive's delegation?
- If the work is to be delegated to the chief executive, should the board provide criteria upon which the chief executive should design the response to the work?
- If the work is to be retained at the governance level, what staff support is required?
- Is the work to be carried out based on a regular meeting schedule, for example quarterly, annually? If so, should the committee be regarded as a standing committee with formalised and ongoing membership or as a working party whose membership might change or be fluid throughout the process of carrying out the work?
- Does the committee need terms of reference or can it create its own working processes and structures?
- How, and how often, should the committee report to the board?

The board should only establish committees (or taskforces) 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.

Mature boards might have no more than two standing committees: an Audit and Risk Committee and a CEO Performance Management Committee.

Some may add a Governance Committee to instigate and oversee the board performance assessment process, board succession planning appointment and induction systems, and policy review. But in smaller organisations, this committee is rare.

Sample terms of reference for each of these standing committees are available in the online resources.

In addition to 'standing' (i.e. permanent) committees, taskforces or working parties can be set up to help the board explore particular issues. When their work is done they can be thanked for their efforts and wound up.

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

A board can take some further steps 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 assign staff to work with board committees, but 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 the chief executive may ask a board member to serve on a management committee 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 the advice offered by 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 is to be preserved.

An example of a board policy that could be adopted to support these principles can be found in the online resources sample board manual and policies.

Ownership and structures

Introduction

The best way to structure sport in a rapidly changing world has been a major issue over the past decade. Most sporting bodies largely grew 'organically' from the ground up to service regional and national competition requirements. Some of the founding documents have changed little for over 100 years. These structures are under challenge in an environment where many adults and children participate without a connection to a formal club. A range of competing providers and events have entered the market and in many areas of sport and recreation participation either does not require any connection with a formal structure or exists within informal social groupings.

Various change processes have been attempted in New Zealand. These and the resulting structural revisions are discussed in this section and in the associated online resources.

Ownership and membership

'Ownership' is a key concept throughout this document. The board's job is to act on behalf of the 'owners' to achieve the best possible outcomes for the organisation. While sport and recreation organisations rarely have formal 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 authorities and rights. It is 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

Not-for-profit organisations do not issue shares and thus there are no legal owners in the sense that shareholders of a listed company are legal owners. But it is still useful to think of the members of an association or society as the equivalent of legal owners. Legal owners have three overarching authorities: they can exercise control over the board at a General Meeting (AGM or SGM); they can alter or amend the constitution or rules; and they can determine to close or wind up the legal entity. In incorporated societies, these owners are usually known as the 'members' or the 'member organisations'. In national sports organisations with traditional federation structures this legal ownership group can be quite small, perhaps just half a dozen regions, branches or other member entities. In such cases, their obligation at General Meetings to be truly representative of the clubs and participants further down the structure and the observed reality have caused much political dissent in sport.

Moral owners

There may be other individuals or groups who are the reason for the organisation's existence – for example, participants, elite athletes, volunteers, coaches – but who cannot exercise direct control over the organisation, because they are not the legal members as narrowly defined in the rules or constitution. These might be thought of as moral owners, and can include people who are not direct participants, for instance parents of children who are active in the organisation's programmes. The needs and concerns of the moral owners should be a vital component of the board's thinking and planning.

Service suppliers and funders are not owners

Business relationships exist 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.

Classes of membership

Not-for-profit organisations, including sports organisations, may have several classes of membership. This enables a wider range of individuals with an interest in the organisation's work or the sport to feel they are part of the structure. However, not all of the membership classes have full membership rights. Junior members, for example, are generally excluded from voting. Junior membership (under 18 years) should be approved by a parent (including the right to vote) because of the limitations on minors' ability to contract with third parties under the Minors' Contracts Act 1969. Reduced or no voting rights might also apply to corporate members, who are sometimes more of a sponsor than a full voting member. Some golf clubs allow only full playing members to vote; all others, including nine-hole or weekday-only members, may be able to attend the AGM but not to vote. The historic concept of membership is under challenge when considered against the increasing numbers in informal and event-based participation. Organisations look to have relationships with a broad range of participants. Many of them will be outside the legal ownership structure.

Membership classes now might include:

- full voting members;
- junior members;
- corporate members; and
- special classes of members (e.g. nine-hole or summer members), associates, observers, technical, casual, event, honorary or life members.

Legal frameworks

Sports organisations in New Zealand are generally formed as either an incorporated society under the Incorporated Societies Act 1908 or a charitable trust under the Charitable Trusts Act 1957. Each of these Acts spells out the requirements for incorporation. Whether a sports organisation is an incorporated society or a charitable trust, it can also apply to be registered as a charity if it has charitable purposes under the Charities Act 2005.

Incorporated societies

Incorporated societies must have a minimum of 15 individual members or five corporate bodies, or a mix of both, when they apply to become an incorporated society. Under the Incorporated Societies Act 1908 (which is very old and was never designed for large entities) the organisation is controlled by a committee, which is accountable to the members at General Meetings. They are thus democratic bodies. Members can change the rules of the society, elect or remove members from the committee and agree to wind up or dissolve the legal entity. When an incorporated society is wound up, the surplus assets can be distributed to members, unless it is a charity, in which case they cannot. While the society is active, however, the profits or financial surpluses cannot be distributed to members.

Trusts

Many not-for-profit organisations, including sports bodies, are incorporated as charitable trusts. A trust is controlled by trustees, who have the ultimate authority over all matters relating to the organisation. Trustees usually control the composition of the board and have the sole power to change the trust deed, provided this does not detract from the objects of the trust or affect the charitable nature of the trust. Whereas federation and unitary bodies operate on democratic principles, trusts generally do not. Some trusts have varied the model and created an electoral college to represent sections of the community they serve. Some national sport organisations (NSOs) have associated trusts whose role is to own assets and capital funds. Trusts do not have members. This has implications for capturing membership data, disciplining the individuals within the sport and applying rules in response to inappropriate behaviours and actions.

The regional sports trusts are the most visible of the trust-based organisations in New Zealand.

Registered charities

It is also common for sports bodies that have charitable purposes to register as a charity under the Charities Act 2005. The former Charities Commission commonly held sport to be charitable, and this has been confirmed by a recent amendment to the Charities Act to include amateur sport. The Charities Act now recognises that the promotion of amateur sport may be a charitable purpose if it is the means by which a charitable purpose is pursued (for e.g. if it advances education or has purposes that provide benefits to the community).

The benefits of becoming a charity include the organisation gaining:

- tax-exempt status;
- better access to donations (including philanthropic funds and donations) as individuals can claim a rebate on their donation;
- increased access to funds as some funders only give to registered charities;
- better rates that suppliers often provide to charities; and
- improved public confidence as information about the charity's activities and the way it uses its resources is available to the public on the Charities Register.

The only disadvantage of becoming a charity is that the organisation needs to comply with the obligations under the Charities Act. This includes filing an annual return with the Charities Business Unit of the Department of Internal Affairs, outlining its activities, income and expenditure, and other information.

To become a charity the objects in the organisation's constitution need to reflect a charitable purpose (i.e. the advancement of education or for any matter beneficial to the community) and the winding-up provisions must ensure any surplus assets are transferred to some other charitable body. The constitution needs to reflect the requirement that the charitable purposes benefit a sufficient section of the public.

Other structures

In some cases major event structures have been created to separate the risk-taking enterprise from the membership vehicle. These are usually limited liability companies with charitable status. Because of their specialist nature, they typically require expert legal and tax advice. Legally they may be able to protect the organisation from substantial loss but it is more difficult to protect from reputation damage.

Constitutions, rules and trust deeds

Constitutions and rules (the term used in the Incorporated Societies Act 1908) are legal documents that codify the contractual agreement between the owners (members) and the organisation. Generally these documents should refer only to those matters that affect this contract, that is, matters relating directly to the members' interests.

These include: the objects or purposes for which the organisation is established; definition of members and the means by which membership is attained or removed; the means by which members control the composition of the board and appointment or election of board office holders, alter or amend the content of the constitution, call and participate in General Meetings, appoint the external auditor, appoint a chief executive, and wind up the entity; and the means by which the assets are distributed.

A constitution or rules should not describe everyday operational matters such as the details of the way board meetings are run. While these matters are of interest to many members, they do not affect the members' interests per se, and are more appropriately documented as policies, regulations or bylaws that do not require membership authority to be changed. Any policies, regulations or bylaws of the sport itself should not form part of a constitution but must be consistent with the constitution or rules and come within the powers of the organisation set out in those documents.

Trust deeds are the equivalent of constitutions or rules and establish the rules for the operation of the trust and the roles of trustees. In New Zealand the regional sports trusts are the obvious example constituted under the Charitable Trusts Act 1957. Increasingly, specialist trusts are being set up for the receipt of significant donations or the ownership of major assets.

Historically the objects and powers of the national sport organisation have been defined as promoting and developing the sport, enhancing participation, promoting and developing competitions, and affiliating with the relevant international body. Shifts in funding arrangements have seen a focus on the promotion of elite sport and competitions at the national level, with many of the grass-roots functions delegated to member organisations, but the reverse is occurring in other NSOs, which are altering their constitution to extend their jurisdiction to the whole of the sport as they introduce 'pathway' concepts.

Types of sports organisation structures

Most sports are a grouping of incorporated societies (federation) bound by formal agreements.

Sports organisations in New Zealand are commonly structured as either a federation of member organisations, a unitary body or a trust.

Federations (traditional structures)

In New Zealand the federation is often known as the 'traditional' structure. Federations form when membership organisations decide that they can achieve more by combining their efforts, resources and interests than by remaining alone. Often this is driven by the need for competition at the regional level and the requirements around national representation and the associated funding flows.

Organisations built on a federation structure will have two or more layers of governance, which might comprise different codes, as in the case of Snow Sports New Zealand, or be based on regions, districts, branches or clubs. Each layer has its own separate legal status, usually as an incorporated society, and thus a considerable degree of autonomy, and may also have separate functions. In a simple example, the clubs provide the opportunity for participation, the regions might run competitions and sub-elite activity, and the national body might oversee high performance, national competition, government relations and the link to international bodies and competitions.

Federations are based on the principles of cooperation, collaboration and the 'sum of the parts being greater than the whole'.

Even though the national body might be seen to be at the head of the overall organisational structure, its authority is restricted to the powers assigned in its constitution as controlled by its owners. The benefits of different parts of the federation carrying out specialist roles work well where there is agreement and understanding throughout the structure about such roles. Agreement can take several forms, for example, constitutional alignment, whole-of-sport plans, memorandums of understanding and service-level agreements.

Unless otherwise agreed, service delivery and communication cannot 'level hop'. This is both a strength and a weakness of the federation model.

While the constitutional autonomy of each level is protected, communication, organisation-wide strategy and national interests can be blocked as the result of self-interest or refusal to cooperate at one or more of the levels.

In addition to the members (legal owners) of the organisation, there are often several further associated organisations that have a connection to it but are often not legally or constitutionally tied into it, or may be legally connected as associate members (with no voting rights). Examples are national Māori sports organisations, national coach and umpire organisations, and parallel national organisations for people with disabilities.

The traditional federation structure typically sees the national sport organisation, member regional/provincial associations and member clubs operating as separate, autonomous entities in accordance with their rules. This can result in multiple and often duplicated plans, accounts, annual reports, human resource systems, membership databases and websites. Unless there is a coordinated structure, the national sport organisation can have limited ability to lead, influence or drive change across the sport as a whole. The connection between the national body and the individual participant can be tenuous at best and often non-existent.

The recent structural changes and the advent of whole-of-sport plans and service agreements are attempts to create more cohesive businesses within these federal structures, bringing greater awareness of the roles that national and branch/region/code levels need to play to deliver the required outcomes at every level.

The traditional federation structure is set out diagrammatically in Appendices 1-4, each formed around different member groupings and layers of members (e.g. regions, codes and clubs). Some of the advantages of this traditional structure include:

- The sport can service several different groups or interests at the same time due to varying numbers of organisations within the sport.
- Representative groups can be present at a greater level throughout the sport, reflecting the number of layers and levels within the sport.
- It provides a well-established, well-known structure creating career paths for volunteer administrators based largely on service.
- It can invoke a widespread sense of ownership.
- It allows for differences in local and regional communities.

Federation structures can work well when there is a clear understanding of the separate but interdependent roles of the national and regional bodies and clubs, and where there is clear and documented agreement and willingness to cooperate across areas of wider interest.

As part of any national sport organisation's strategic thinking and planning, consideration should be given to the appropriate legal arrangement to suit its needs. The recent structural change processes in the sector are discussed later in the document and in the online resources.

Federation variants

Several variants have evolved in New Zealand over the past 10 years, all essentially different forms of federations (groupings of incorporated societies). Some NSOs have moved to structures such as:

- a 'one club, one vote' structure allowing for better communication to the delivery end of the sport and the implementation of 'whole-of-sport' plans;
- a legal ownership structure where individuals, clubs and, in some cases, regions are all members of the NSO;
- a structure where individuals, clubs and regions are retained in practice but are no longer incorporated as a legal entity; and
- removal of the separate legal entity structure at regional level but retention of advisory groups or established other forums (e.g. chairs' forums).

Organisations need to consider such adaptations carefully, to avoid conceptual flaws that can cause negative issues, and conduct wide and thorough consultation before making any change. These models can greatly help a sport address contemporary challenges provided the nature of the model, how it works and the impact it will have at every level are understood.

Unitary bodies

The only significant deviation from the 'traditional' federation structure is the full unitary model, where individuals are the only legal members of the national body.

'Unitary' refers to an organisation that is based on a unit or single body or, alternatively, a system in which authority is centralised. A unitary organisational structure is a top-down structure in which the national body is usually the only legal entity, with all other structures or entities having non-legal status (in terms of formal membership). The owners of a pure unitary sport body will be individual participants, who are the voting college controlling the entity's constitution and the composition of the board. While there might be separately incorporated local or regional bodies, these are either affiliates and/or in some cases committees of the national board even if not named as such. Their authority will be limited to terms defined by the centralised authority, the exact opposite of the way authority is controlled and allocated in a federation structure.

At the time of publication, Triathlon New Zealand is the closest New Zealand NSO example of a true unitary body.

Clear accountability

Whatever the structure, the organisation needs to operate within a framework that results in clear accountability. Sport is fraught with opportunities for confusion and potential conflict.

If a federal structure is to work effectively and efficiently, and not be diverted by internal power struggles between the national body and districts, codes, etc., attention must be paid to the design and management of the relationship between its various parts. It must be clear whether the national body is a 'head office' that can command and control, a 'centre' that advises and coordinates, or something in between.

Documented clarity on roles and expectations is vital. The emerging use of aligned constitutions, cascading strategic plans, service agreements and whole-of-sport plans is a positive step in gaining such clarity.

Change processes

Drivers for change

Some sport structures have remained unchanged for a long time and now have limited relevance to the contemporary world. In many cases the sport itself has evolved with variants and disciplines coming and going. The drivers for change include:

- losing participants to competing sports or other providers (events, facilities-based, commercial providers);
- a corresponding shrinking membership and revenue base;
- fewer volunteers, who are struggling with higher levels of compliance and the ongoing need for fund-raising;
- the emergence of professionalism in sport and franchise operations;
- the need to have an integrated approach to events, to create and protect branded properties;
- duplication of cost and effort, notably with multiple layers of governance independently considering strategy; and
- the consequent need to take a 'whole-of-sport' view, outlining pathways for participants, coaches and officials.

The change process

Changes in sport come from either a reasoned consideration of future needs or a 'burning platform' of crisis. Proposals for change are either 'revolutionary' or 'evolutionary'. Revolutionary change is usually associated with crises and agreement by the parties that things have reached a point where substantial change is required. Evolutionary change will be more considered and possibly achieved in increments over a longer time frame. Ultimately any change needs to be put to the vote. Leading up to that point any change process will need to address some or all of the following:

- fear of loss of control of resources or assets;
- loss of local identity, local funding arrangements, local tournaments or programmes;
- loss of status, power or office gained after long years of service;
- unwillingness to take a wider view where the perception is that all is well locally;

- danger of volunteer loss if additional paid roles are introduced;
- the need to know "what does it mean for me?"; and
- what will be better, by when and how will we know?

Learnings from recent change projects

In 2011 Sport New Zealand commissioned a report examining the change processes in seven major sports. The report, *Organisational Change in Seven Selected Sports*, is available in the online resources. The key learnings were:

- People are the most important element of the process and must be engaged at all levels of the organisation.
- Structural change without a corresponding behavioural and cultural change is essentially a wasted effort.
- Without a common understanding and buy into the core purpose of the organisation the process is unlikely to succeed.
- There is a need to be clear about what is to be fixed and whether the proposed changes will actually fix it and not lead to a range of new issues.
- Is the platform burning because of fatal flaws or has the behaviour of those on board caused the fire?
- Volunteer engagement and management are the most critical levers for success or failure.
  - Communicate openly and regularly in a transparent and credible manner (no secrets).
  - Change should be fronted by the leadership.
  - Deliver on promises or front up and explain why.
- Many issues were traced back to poor leadership, notably board leadership.
- Without credibility and trust any change process is unlikely to succeed.
- Most processes were hampered by a lack of detail in resource planning and also implementation detail.
- There is a perceived need to refocus spending on communications, people and planning. All sports underestimated the resource requirement of the change process.
- The residual issues in the change processes are not about structure but about people, behaviour and cultural change.
- In general there was a lack of prior agreement on how success would be measured.

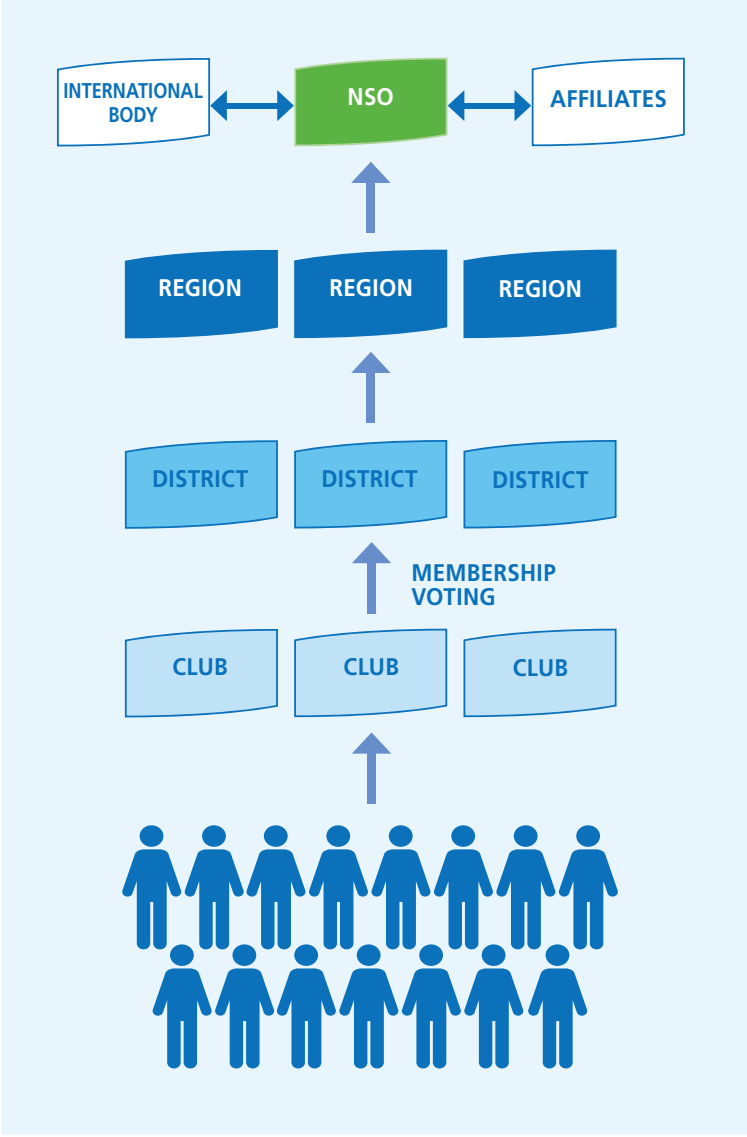
Change takes time and needs to be viewed over periods of five years plus. This is especially relevant in the not-for-profit world if change involves large numbers of volunteers who are not in a 'command and control' environment. Any organisation contemplating change would benefit from researching the experience of others and seeking expert advice on the process itself and the legal ramifications of the proposed change.

Appendix 1

Traditional structure

Federation of regions, districts and clubs

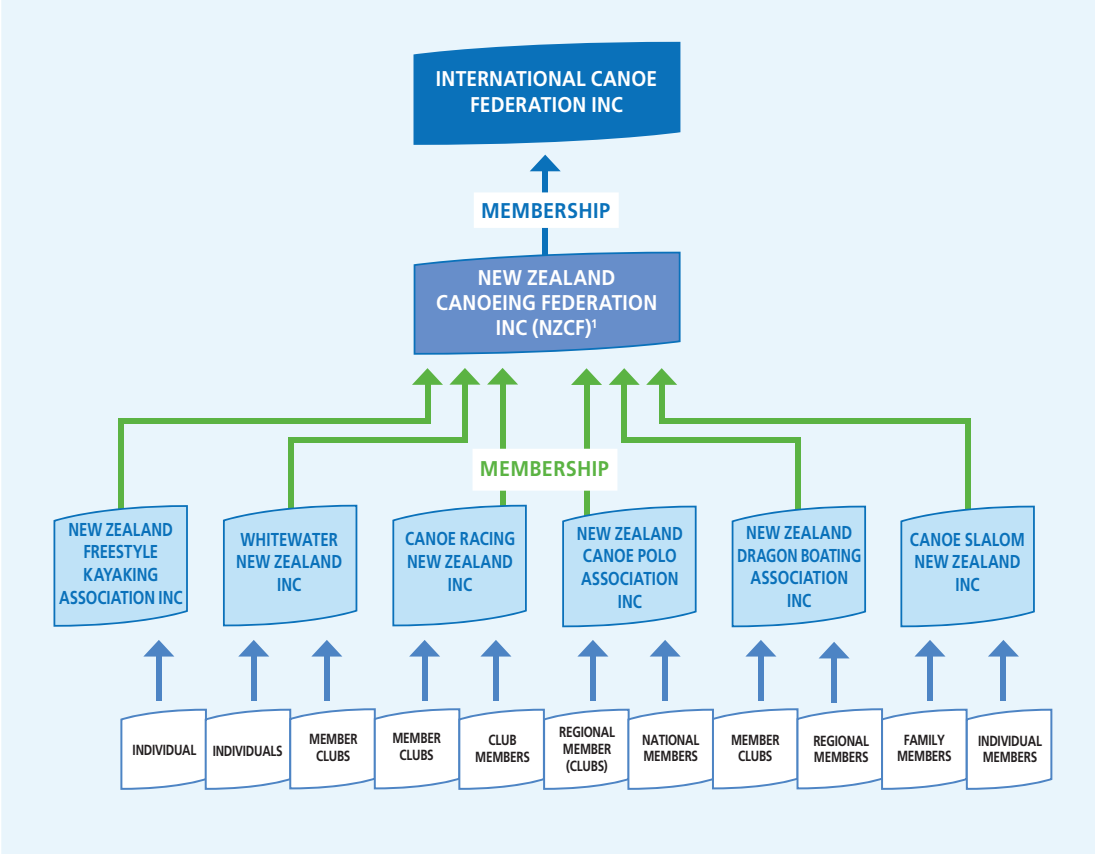
This diagram depicts a multilayered federated group of incorporated societies in which each layer votes for the next layer up. The legal owners of the NSO are the regions. The legal owners of the regions are the districts and the legal owners of the districts are the clubs. Each layer will have a committee or board and possibly paid staff. This is the most 'traditional' of the NSO federation structures.



Appendix 2

Federation of codes

Several examples exist of similar codes grouping together. Often these mirror international examples and/or have been driven by funders not wishing to deal with multiple similar small entities. Cycling, equestrian, canoeing and snow sports all come together in varying ways. Each code may have separate clubs, even district associations and a national body all individually incorporated. These structures require good documented understandings around areas of cooperation and areas of separate enterprise. Most of these structures have sought greater alignment and integration as they grow.



[1] Each member association of the New Zealand Canoeing Federation (NZCF) is entitled to one vote at General Meetings (through its one delegate). The board of NZCF comprises a patron (elected at the AGM by the delegates), one delegate from each member association (appointed by that member association) and up to nine independent directors (appointed by the board).

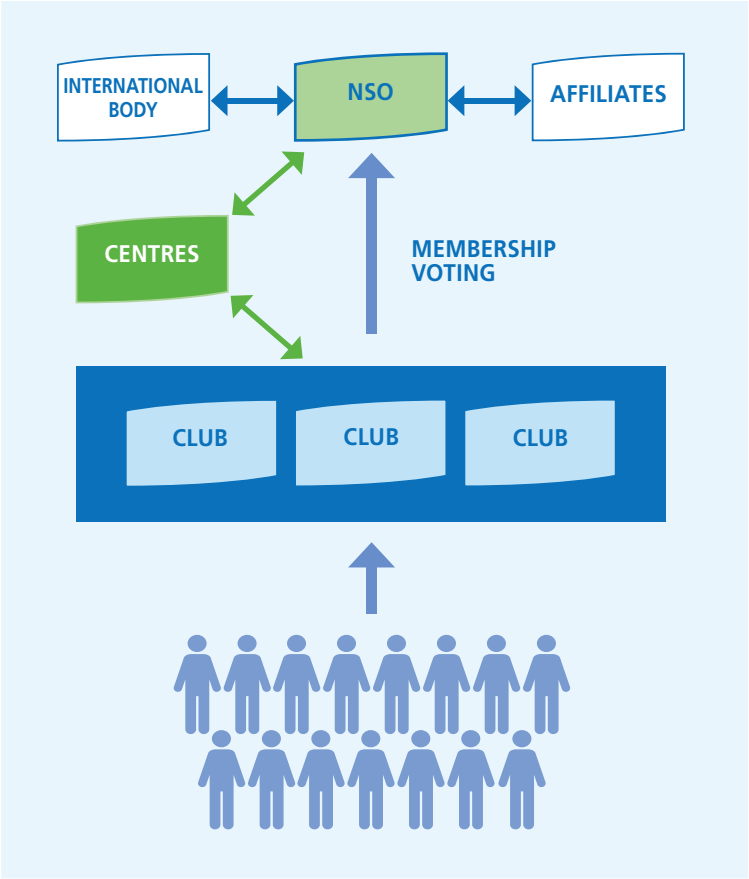
Appendix 3

Federation of clubs

The major variations to the 'traditional' model involve changes to the legal ownership (eligible voters) and/or physical dissolution of structural layers. Both Gymsports New Zealand and Athletics New Zealand have gone to a one club, one vote model. The regional structure has been dissolved in the case of Gymsports but retained in Athletics. In Athletics the centres (regions) will ultimately lose their right to collect levies from clubs and will need to demonstrate value in the services they provide to the clubs, the national body, event participants or other funders within a coordinated national strategy.

Where the regional or district layer is retained it may not be as an independent governance entity but as a deliverer of services under a centralised plan. Staff may be contracted directly to the NSO and corporate services provided centrally.

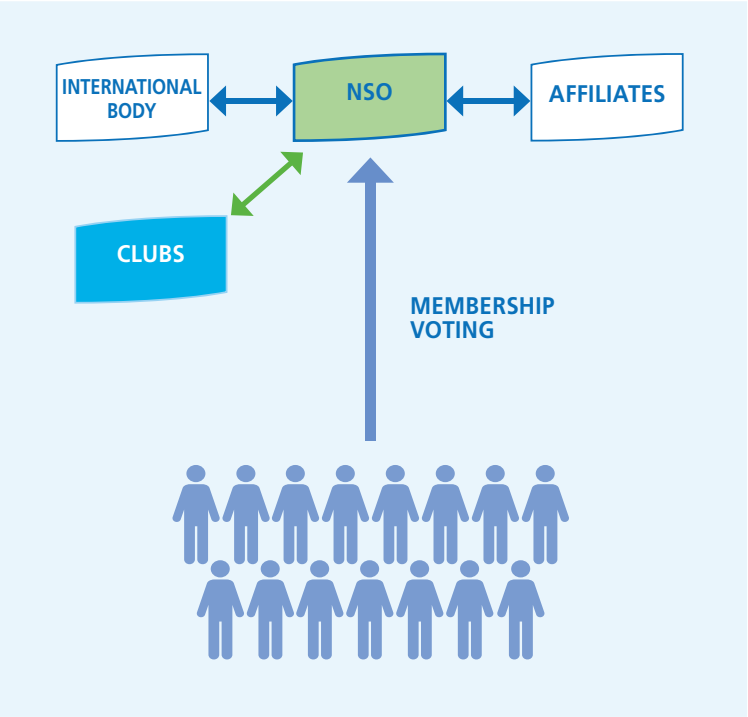
The club to NSO model (in this case Athletics New Zealand)



Appendix 4

Unitary structure

This is the simplest of the NSO structures and more suited to some sports than others. In the case of Triathlon New Zealand it reflects its strategy of primarily being an events-based organisation.



There is no one answer as all sports are different. Team sports and sports with facility or playing surface requirements will be very different from the individual sports that require little infrastructure and where participants have greater flexibility.

Appendix 5

Comparative chart

This chart shows the differences between an incorporated society, a charitable trust and a limited liability company.

	Incorporated Society	Charitable Trust	Limited Liability Company
SUITED TO	Not-for-profit organisations where members have a common interest (e.g. sport, hobby or community interest).	Not-for-profit organisations with a charitable purpose (e.g. education, religion, relief of poverty or other purposes that benefit the community).	Trading organisations. Good for groups with a commercial purpose or who wish to limit the liability from another entity and/or individuals.
CHARITABLE PURPOSE	Can have a charitable purpose if it wants to be a registered charity under the Charities Act.	Must have a charitable purpose to be registered as a charitable trust. Can also be registered as a charity under the Charities Act.	Generally does not, but can, have a charitable purpose*.
SIZE	Minimum of 15 members or five corporate bodies or a mix of both.	Minimum of two Trustees.	A minimum of one director, one shareholder and one share, unless the constitution states otherwise.
DECISION MAKING	By members at General Meeting and by the committee/ board in accordance with the rules.	By the trustees in accordance with the trust deed/trust board.	By the directors in accordance with the constitution and the Companies Act 1993. By management in accordance with board decisions. By shareholders at the AGM.
MEMBERS	Membership requirements determined by the rules.	No members – the trustees run the trust to benefit the beneficiaries. Beneficiaries not bound by any rules.	Shareholders as determined by the constitution.
ACCOUNTABILITY	Committee/board accountable to the members.	Trustees are accountable to the beneficiaries and must comply with the trust deed and the Trustee Act 1956.	The directors are accountable to the shareholders and must comply with the Companies Act 1993.
PROFITS	Must be used to run the society to achieve its purpose. Profits cannot be distributed to members.	Must be used to run the charitable trust to achieve its purpose.	Profits can be distributed to the shareholders.

** It is possible for a limited liability company to have charitable status in specific instances.*

	Incorporated Society	Charitable Trust	Limited Liability Company
HOW TO INCORPORATE	Send applications to the Registrar: • an application form • two copies of the rules • statutory declaration • $100.	Send applications to the Registrar: • an application form • a copy of the trust deed or rules • statutory declaration.	Obtain approval for company name. Send application to the Companies Office: • an application form • a copy of the constitution.
MAINTAINING REGISTRATION AFTER INCORPORATION	Send this information to the Registrar: • annual financial statements • rule changes (including names) • change of contact details.	Send this information to the Registrar: • rule changes (including names) • change of contact details.	Send this information to the Companies Office: • annual return • change of contact details/name • constitution changes.
WINDING UP	According to the rules: surplus assets can be distributed amongst members unless charitable status applies.	According to the trust deed: surplus assets must be distributed to other charitable organisations.	According to the constitution: surplus assets can be distributed amongst the shareholders unless charitable status applies.
REPORTING REQUIREMENTS FOR ORGANISATIONS REGISTERED UNDER THE CHARITIES ACT 2005	All organisations registered under the Charities Act 2005 need to file an annual return (including financial statements) with the Charities Business Unit of the Department of Internal Affairs and notify changes to the name, address, rules, purposes and officers. Organisations (other than trusts) must also notify those people in a position to have significant influence over the management or administration of the charity.		

Sample constitutions

An example of an incorporated society constitution and a charitable trust deed are available in the online resources. Adapting these templates to specific circumstances requires expert advice in each case.

The Nine Steps framework

Policy Governance® is the trademarked name for a model of governance developed by USA governance expert Dr John Carver. While Carver's model is premised on commonly accepted governance principles, he has gone a step further than most governance writers and developed a model. Originally designed for not-for-profit organisations, Carver's Policy Governance model has been adopted by corporate entities and is widely acknowledged as providing solutions to many common governance failures and challenges. Carver's model forms the background to many of the principles and processes that the Nine Steps approach advocates.
Policy Governance is premised on the principle that boards should govern on the basis of policy rather than, as is often the case, in an ad hoc fashion. The model proposes four sets of board-level policies. These are:

Ends policies

This is Carver's term for what most boards would know as a statement of Strategic Direction or Strategic Plan. The emphasis in the Carver model is that this document is written in 'ends' or outcomes terms, stating what must be 'achieved' rather than what must be 'done', in other words as outcomes rather than intentions. An outcome might be expressed as:

"By 2020, 40% of children in our community aged 12 will be able to swim 200m."

Running learn to swim programmes is an output or action as a step to achieving an outcome. It is one of several actions required to achieve the outcome that will include coaching, facilities, marketing, etc.

Governance Process policies

These document the inner workings of the board itself.

Board-CEO Interrelationship policies

These define the nature of the interrelationship between the chief executive and the board.

CEO Delegation policies

These document the board's delegation to the chief executive.

These policies are all further discussed throughout this guide.

A sample set of policies for a sports organisation based on the policy governance principles is included in the online resources as part of the sample board charter.

The Nine Steps model

The remainder of this resource is devoted to a nine-step process for ensuring governance effectiveness. It is presented in the order that would be adopted if a board were to be established from scratch.

Step 1: Get the right people on board

The first step is to get the right people on board. Without the right skills and attributes present among its directors, any board will struggle to deliver good governance.

Step 2: Define and agree the board's role

Once the right people are on board, there needs to be agreement about exactly what the board's role is and what should be delegated to management. Once agreed, the role and delegations should be written as policies, perhaps as part of a more comprehensive board charter.

Step 3: Employ and support a chief executive

Once the board is in place and there is agreement about its role, a chief executive will need to be employed to carry out the operational work of the organisation. Recruitment should be carefully carried out to ensure the right fit. Once in place, the chief executive needs to know what his or her authorities are and what the board expects should be achieved. Clearly defined delegation policies provide the chief executive with the confidence that he or she can apply their skills and authority without having to ask permission from the board to do the job they are employed to do. The chief executive should receive regular performance feedback based on objective criteria.

Step 4: Provide strategic leadership

The chief executive is employed to achieve outcomes rather than to merely be busy doing 'things'. A statement of strategic direction or strategic plan makes clear what is to be achieved. This should be written in outcomes language as the basis for effective monitoring and evaluation, and as the basis for measuring organisational and chief executive effectiveness.

Step 5: Make board meetings count

The board meeting is the place where a board does most of its work. Board meetings should matter. They should be well run and should focus on the board's job, not the CEO's. Meetings should be predominantly forward looking and offer satisfaction to directors, who can leave the meeting knowing they have added value as the result of applying their experience, expertise and wisdom.

Step 6: Stay on top of the governance role

Even the most experienced boards and directors can find themselves drifting away from the governing role and becoming involved in management matters. It is imperative the board stays on top of its role. Monitoring and assessment of organisational effectiveness is the bread and butter of board meetings. However, these functions should not dominate the meetings. Time should be spent at every board meeting looking ahead; a portion of every board meeting should be the equivalent of a mini strategic retreat.

Step 7: Develop the work plan

This ensures directors view their role as continuous rather than episodic and involves making timely provision for all the tasks and functions that the board must address over the course of the governing year. Boards in all sectors are now developing annual agendas.

Step 8: Regularly review the board's performance

Increasingly boards in all sectors are undertaking regular performance assessment. Often guided by an independent specialist, this process also includes individual director assessments based on peer and self-performance feedback.

Step 9: Provide purposeful director induction

Step 9 closes the loop. Recognising that most boards have a regular infusion of new members bringing new skills and experience to their considerations, it is imperative that all newly appointed directors are provided with an effective induction into the affairs of the board and the organisation.

Caveat

If the concepts and the tools, techniques and other resources outlined in this guide are applied in isolation, there is 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.

Quick reference guides

The resource concludes with a set of quick reference guides that summarise each of the Nine Steps.

Online resources @ www.sportnz.org.nz/governance

Resources referred to in this section include:

- Board charter and governance policies
- Standing committees of the board – terms of reference
- Incorporated society – sample constitution
- Charitable trust – sample deed
- Research report *Organisational Change in Seven Selected Sports*

Further readings: Concepts, challenges, structures and change

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* The articles from the publication *Good Governance* referred to throughout this document are available in the online resources.

STEP 1: GET THE RIGHT PEOPLE ON BOARD

The problems we have today cannot be solved by thinking the way we thought when we created them

– Albert Einstein

STEP 1: GET THE RIGHT PEOPLE ON BOARD

The starting place for the creation of a well-functioning, value-adding board is its composition

USA governance writer Ram Charan calls the process ''stacking the board with talent''. Canadians Leighton and Thain describe director ''competency requirements''. John Carver talks about ''raw material''. Whichever terms are used to describe the basic director building blocks and the processes used to transform these into an effective board, it is not possible to get away from the absolute requirement that there must be the 'right fit' between the individual and the role.

Board work is brain work

Before focusing on the skills for directorship it is important to restate the basic premise that 'board work is brain work'. Acceptance of this maxim is fundamental to any discussion about the skills and attributes required for directorship. The board's job is a thinking and talking one, and strong conceptual skills are paramount. Directorship demands clarity of thought and an ability to cut through complex issues to get to their essence.

Core directorial skills

Strategic thinking skills

Highest on the list of directorship skills is the ability to adopt a strategic perspective, to see 'the big picture'. In the words of John Carver, "The board's job is to create the future, not mind the shop". Creating the future demands strategic thinking skills. Boards add value to their organisation's and their CEO's work by lifting the discussion horizon to the strategic level, by identifying and focusing on the organisational 'ends' and understanding the meaning of these and their implications for the various stakeholder groups served.

An understanding of organisational structures and systems

A director should not be required to have the skills to run the organisation but he or she should know what running the organisation entails. While the board does not determine the operational management structure, directors should have a basic understanding of how organisations should be structured and operated in order to deliver appropriate results.

Financial management

Directorship may require only a general understanding of business and organisational life, but there can be no escaping the need for all directors to have at least some understanding of financial management. Every director should be comfortable with traditional financial statements. They should be able to read a balance sheet and understand the connection between this and the more detailed profit and loss and cash flow statements. Every director should understand what is required for organisational financial security and be able to enter into a meaningful discussion about the current financial position, risk and future financial requirements.

Knowledge of the business of the organisation

When directors join the board with relatively little sector or sport-specific knowledge, they, and the board as a whole, are obliged to ensure they have the opportunity to quickly fill knowledge gaps. New director induction will assist this process. However, don't override the requirement that every director must accept a personal responsibility to remain up to date in their knowledge about the sport or the sector so this can be applied in the board's strategic decision making and performance monitoring.

Commitment to the organisation's Mission and Values

It is imperative that all personnel associated with the organisation have a strong commitment to the Mission or Purpose of the organisation and to its Values. It is even more important for the board to demonstrate tangible commitment because of its stewardship role. Directors not committed to the Mission and Values will often be at odds with the rest of the board and staff, and could easily lead the board in a direction that is inconsistent with the organisation's fundamental reason for being. This could have dire effects including a loss of reputation, public support and funding.

Interpersonal skills

Listening to the viewpoints of others, suspending judgement and putting oneself in the shoes of others are all essential boardroom skills, none more or less important than any of the others. Equally important is the ability to ask probing or exploratory questions. It is imperative that directors can effectively question the CEO, and other senior staff present at the board meeting, or outsiders from whom the board is seeking expert advice. Key here is the ability to 'disagree without being disagreeable'.

Teamwork skills

At the heart of good decision making and a commitment to those decisions is an inclusive and rigorous process of hearing and understanding different information, ideas and points of view, and being part of the team. An understanding of the importance of dialogue (as distinct from traditional debate) and skill in its application are topics that have great relevance to all boards.

Personal attributes

Ethical standards

Highest on the list of personal attributes must be those associated with a commitment to personal integrity and corporate governance ethics. The board has a 'fiduciary' or trusteeship responsibility to the organisation, its stakeholders and, in most instances, the wider community. No organisation exists as an island in the community, isolated from its impact on the wider social and economic environment.

Independence

Independence is a state of mind or an attitude. To ensure the board does not become captive to 'group think', the board must reflect a diversity of opinions and experience essential to sound debate and decision making. Collective judgements are enhanced by sound independent thinking brought together around agreement about achieving a shared purpose.

Ability to recognise competing interests

On a personal ethical level, directors must have the courage of their convictions. They must have the ability to be objective, to view board issues and processes through the lens of principle rather than the subjectivity of personal impact or implication. One area where this is particularly relevant is in the identification of any clash between personal and organisational interests. It is up to the individual director to identify and acknowledge any real or potential clash of interests and take whatever steps are appropriate to distance him or herself from impropriety.

Seeing things through

It is important that directors have a commitment to seeing things through. This is consistent with a strategic or long-term view of the organisation. The board should not be distracted by short-term imperatives at the expense of the strategic. To this end directors must be able to distinguish between pressing short-term demands that probably rest with management and the more strategic longer-term issues that belong with the board.

A sense of humour

Many battle-weary directors would agree that it is only with a sense of humour that one can hope to survive on a board and remain emotionally and intellectually intact. Humour is a key antidote to frustration and allows the individual to push through the difficulties in a positive frame of mind without needing to upset or blame others.

A commitment to governing

The board's job is to govern the organisation, not to manage it. It is therefore imperative that directors understand the difference between these two interdependent but separate roles and make a commitment to carrying out their governing job rather than partnering with (or even supplanting) the CEO in managing the organisation.

Appropriate connections

For some boards, appropriate connections and networks are an essential director contribution. Directors who can open funding doors or who can assist with advocacy and lobbying by accessing or influencing the target can be invaluable. However, not all directors will bring such connections and nor should they be expected to.

Appropriate contribution

A more universal expectation is that all directors will make an appropriate contribution. For some, this will be from the perspective of expert knowledge, while others will bring a broad scope of general knowledge about the industry and some relevant experience.

Getting governance structures in good shape

The organisation's constitution (its rules, trust deed, etc.) 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 from 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 its governance structure supports effective governance and leadership. The critical issue is to ensure 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.

Succession planning

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.

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 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 'chairs' 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 towards 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. Care should be taken, however, to ensure the right skills are recruited into the board. Often boards seek specialist skills that are better obtained on a contracted basis. For example, it's common to hear board members saying they need a lawyer among their number. While acknowledging the occasional need for a legal perspective, the most valuable boardroom contribution many lawyers make is via their questioning skills. When asked for legal advice in the boardroom, lawyers are more likely to advise that such advice be sought from an independent legal source than they are to offer the advice themselves.

Several organisations now require the independent directors to be truly independent.

Stipulated in the constitution is a requirement that there be no formal connection with the sport for a fixed prior period. This will include paid employment or holding of office at a national or regional level.

It is not uncommon for there to be a 4/4 or 4/3 split between elected and independent directors. Recent experience has shown this to have greatly enhanced the range of skills and perspectives around the board table.

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 director competencies is included in the Concepts, Challenges, Structures and Change chapter.

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 advisers' role, e.g. as members of an *advisory* board or panel of experts.

Diversity

A core function of the board is to consider issues from a range of perspectives. Too many directors with similar backgrounds can tend to produce 'vanilla thinking'. Sports boards in particular need to reflect the community they serve. During recruitment, factors including gender, ethnicity and age need to be actively considered.

"What you want around a boardroom table is an array of perspectives relevant to the business to guide the board. If you had people around the table all with the same background, you might as well have only one person."

– John Palmer, Chair, Air New Zealand

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. Some sectors will be more suited to appointed roles, although many elected positions are now also widely advertised and open to self-nomination. Times are indicative only.

The key steps can be divided into three phases:

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 its structure, role and 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 (above). 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 without any vetting 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 (previous page) 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.

Phase two: Recruitment

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, unlike 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 shortlist for final selection.

The www.appointbetterboards.co.nz platform is available to the sector to post positions and manage the recruitment process.

6. Shortlisting 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 shortlist, from which a final group of candidates can be selected for interviewing. Responsibility for the various stages of this process, including shortlisting, 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, a final decision may not be within its mandate 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 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 position description and a letter of commitment are helpful in outlining the desired relationship.

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 re-assessing how the board will work together in the future.

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 8 on page 133.

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 of this chapter 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.

11. Maintain a list of prospective directors

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

Board appointment panels

In all parts of the not-for-profit sector it is increasingly common to find boards using specialist appointment panels to assist with the director election and appointment process.

Where the organisation's constitution allows, such panels commonly comprise board members and specialist outsiders who bring a particular perspective or set of skills to the process, notably governance expertise. Appointment panels will interview and appoint one or more independent directors and recommend a shortlist of best-fit candidates seeking directorial roles through the election process.

The composition of the board appointment panel might be detailed in the constitution or might be in the form of a board policy or bylaw.

A sample set of boardroom competencies for directors, together with a role definition for a director, is available in the online resources.

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 boardroom table?
- Have 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?
- Is there a good practice process for the selection of independent directors?

Online resources @ www.sportnz.org.nz/governance

- Boardroom competencies
- Role description for a director
- Needs matrix for board recruitment
- Commitment letter for new directors
- Due diligence checklist
- Board interview toolkit

References and further information

Brown, J 2006, *The Imperfect Board Member: Discovering the Seven Disciplines of Governance Excellence*, Jossey-Bass Publishers, San Francisco.

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* The articles from the publication *Good Governance* referred to throughout this document are available in the online resources.

www.appointbetterboards.co.nz

Appoint is focused on the non-profit, privately-owned business and sporting sector, and is committed to building a diverse community of potential directors.

As well as connecting boards and directors, *appoint* provides a candidate management systems to process all applications. The service is complimentary for national and regional sport and recreation organisations.

STEP 2: DEFINE AND AGREE THE BOARD'S ROLE

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

– Marian Anderson

STEP 2: DEFINE AND AGREE THE BOARD'S ROLE

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

Policy leadership: the need for effective 'policy'

Many organisations rely on their constitutions almost exclusively for guidance on governance responsibilities and processes. As was described in the Governance Concepts section, a constitution or rules define the components of the contract between the owners (Members) and the organisation. While the contents of a constitution might be regarded as policy inasmuch as they provide clear guidelines about certain organisational matters, they are not policy in the manner outlined in the Policy Governance model.

The constitution (or rules) is, nonetheless, an important starting point for the development of policy. Any constitution needs to be interpreted and made operational. It is this process, and taking into account the board's legal and other responsibilities, that gives rise to the board's policy-making function.

The board's policy framework provides it with the means to exercise effective 'remote control' over the organisation and to ensure important matters are handled effectively without the board necessarily being directly involved in all decisions.

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

Develop a board charter

Boards in all sectors private, public and not-for-profit – have adopted the process of developing and using a Board Charter as the basis for defining their governance principles and practices. While some organisations develop a short and succinct charter addressing just the basic principles, others develop a comprehensive document that leaves no stone unturned in defining the board's role, responsibilities and processes. It is not uncommon for listed companies to have a charter that is more than 100 pages. This resource does not advocate such an extensive document but it does recommend that a board charter be sufficiently comprehensive to make clear to all who might use it exactly what is required for good governance of the organisation.

The sample board charter and policies available in the online resources commence with a set of general principles relating to governance and the role of the board and board members, and then offer a set of governance policies using the Policy Governance principles. The only examples missing are the Ends policies, which, unlike the others, cannot be offered as a generic set to be tailored. However, in Step 4 an example of a Statement of Strategic Direction for a sports organisation is offered. With a coherent policy framework it is possible for a board to govern based on pre-determined values and agreements rather than on the basis of ad hoc or reactive decisions.

The development and adoption of a board charter and/or explicit governance policies require 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. Others develop policies that are regarded as governance policies, but are actually operational policies that belong at the operational level under the authority of the chief executive.

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.

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.

All of the sample policies in the online resource follow this pattern.

The board shouldn't conclude its policy making until it's confident that whoever it is directed to (e.g. the board members or the chief executive) can interpret and implement it. The board's objective must be to ensure the desired *outcome* is achieved. The board can then be certain it is willing to support its own or the chief executive's actions arising from the policy.

Within the Policy Governance model the Ends policies or statement of strategic direction, the Governance Process policies and the Board-CEO Interrelationship policies are all written in prescriptive form – that is, they say what must be done or must be achieved. The CEO Delegation policies, however, are written as a proscription stating what must not be done. The reason for this will be explained in greater detail in Step 3 Employ and Support a Chief Executive.

Speaking with 'one voice'

The policy development process gives all board members the opportunity to consider what is 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.

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.
- When using sample policies provided by a third party, ensure they are relevant to your organisation, the language is appropriate and the values reflect your organisation's values.
- The chief executive and key staff should participate in the policy-making process.
- Policies must be realistic and achievable.
- If the underlying principle of any policy is unclear, it shouldn't be adopted.
- 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 the board is holding itself and them accountable for each and every policy.
4. Developed with monitoring in mind – the wording should be written in results/outcome terminology so the board and staff can clearly recognise if the policy is not being followed.

Governance Process policies

In Step 1 the board's internal operating policies are briefly explored. These define the scope of the board's job and design its operating processes and practices. Governance Process policies may include:

- Board Terms of Reference;
- Board Code of Conduct;
- The board's role in setting the strategic direction, overseeing financial performance, overseeing risk management and the overall organisational performance;
- Chairperson Role Description;
- New Director Induction;
- Management of conflicts of interest;
- Meeting Protocols;
- Board Committees; and
- Cost of Governance.

Samples of these policies are available in the online resources.

The chair is not 'the boss'

Because of the importance of the chair role in an effective board, this function is singled out for discussion.

The chair is not the board's boss. While holding special responsibilities, the chair ideally is regarded, and regards him or herself, as 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 and compliance with its policies. 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 should have 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 and efficient, adhere to time and keep 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 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. Some chairs will try to anticipate where the board's discussion might go. This is to help ensure 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 pre-planning 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 a close

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.

10. 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.

Other governance policies

The remaining governance policy areas, Board-CEO Interrelationship policies and CEO Delegation policies, are discussed in detail in Step 3. Regardless of their placement in the Nine Steps model, they are, nonetheless, governance policies and sit alongside the Governance Process policies.

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.

When a board adopts or approves 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.

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 Conflicts of Interest 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)?
- Is there an understood cycle of review for your governance policies?

Online resources @ www.sportnz.org.nz/governance

- Board charter and policies

References and further information

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Ten Things a Chairman Must Know, *Good Governance*, No. 35, 2003.

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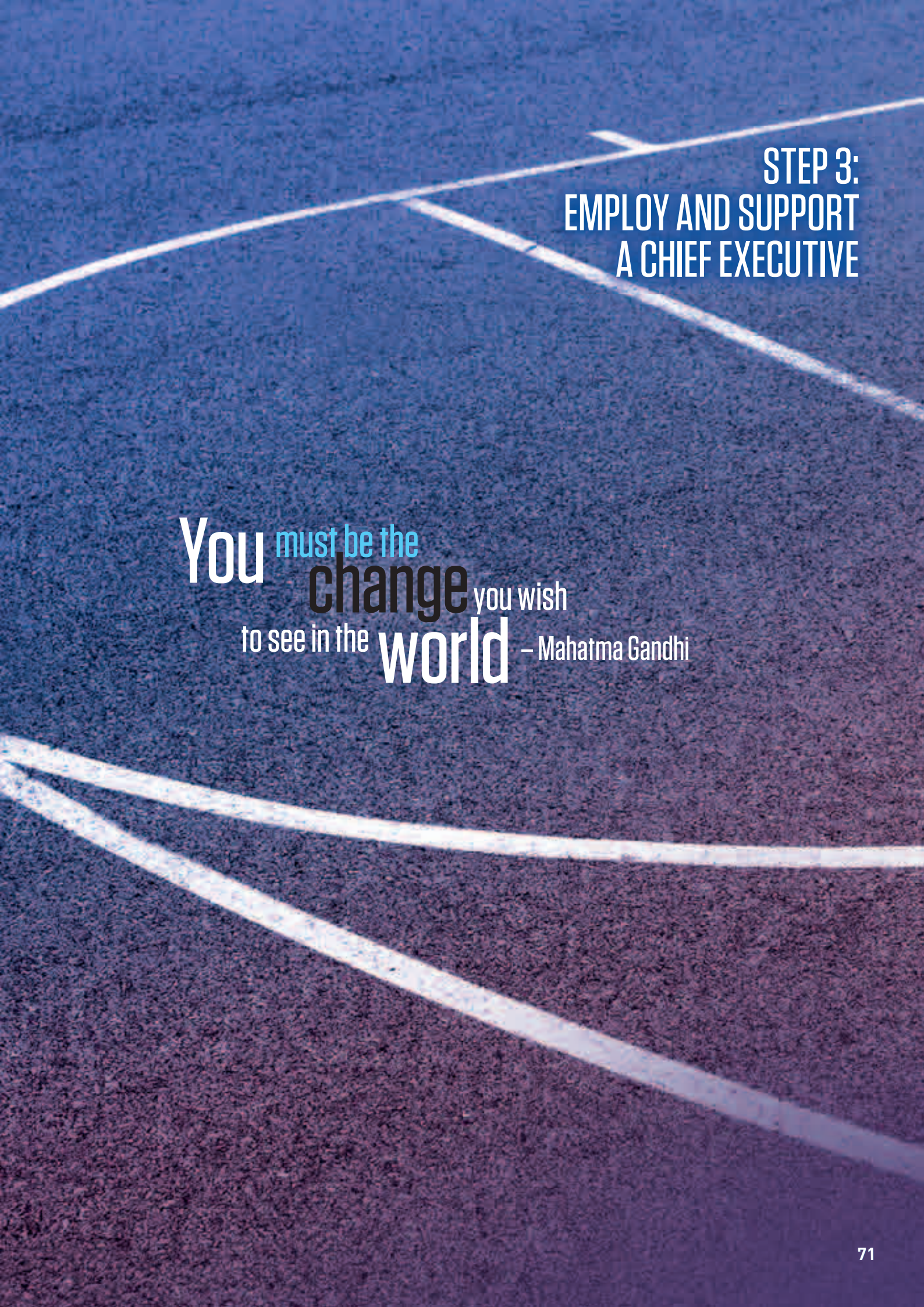
* The articles from the publication *Good Governance* referred to throughout this document are available in the online resources.



STEP 3: EMPLOY AND SUPPORT A CHIEF EXECUTIVE

You must be the change you wish to see in the world – Mahatma Gandhi

STEP 3: EMPLOY AND SUPPORT A CHIEF EXECUTIVE

The board-chief executive interrelationship is critical to governance success.

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.

Put bluntly, most governing boards could not operate without the services of a chief executive. When this relationship sours, both parties suffer. Various dimensions of this relationship are explored in this section to help boards and their chief executives secure a strong working relationship.

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. Start-up sports organisations or small organisations that are unlikely to ever grow to the point of being able to hire paid staff might determine that the board volunteers will carry out the operational tasks as well as being the governing body. This is not unusual in the not-for-profit sector.

Once a board has reached the stage when it can afford to hire its first executive officer, it should follow a logical sequence of decision making designed to ensure the success of the appointment.

Getting the sequence of tasks right

Make clear what the chief executive is to achieve

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

Determine the authorities that the chief executive will be granted

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, making it clear what authorities they can exercise, e.g. their financial delegations, etc.

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).

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, compatibility with the organisation's culture, 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

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: 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' of 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 structure of many sport and recreation organisations the selection of the chief executive is a critical decision. They play a vital linking 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. The desired qualities sought in the new appointee should be discussed thoroughly at the outset, although a working group is likely to do most of the work. 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 shortlisting

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

The board might choose to conduct the recruitment process itself or might elect to seek the assistance of a specialist recruitment company. The determining factor is likely to be financial.

If the board chooses to use outside assistance, and 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 shortlisted candidates including psychometric test results.

- ***Simulation testing*** – if resources permit, shortlisted 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.

The board-chief executive relationship

What sort of relationship is required?

A board has a huge stake in its 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 needs 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 speaks with one consistent voice;
- to be allowed to manage, free from undue 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. The board's policies and the chief executive's performance agreement provide the basis for this feedback. Feedback should be continuous and timely rather than occasional.

5. The chief executive-chair relationship

Most directors and chief executives benefit from the chief executive having a sound working relationship with the chair. This relationship should not, however, be at the expense of the chief executive's relationship with the full board.

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. Without guidance or input from the board, a chief executive might be inclined to 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 by 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 everything within the organisation is as it ought to be.

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

The board needs to be regularly informed 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. Many boards have developed a risk register, charging the chief executive with ensuring this is kept up to date. The Audit and Risk Committee commonly uses the register as the basis for its overview of organisational risk, regularly reviewing the operational response to the risk profile, auditing risk mitigation strategies and activities, and advising the board about significant risk matters and related policies.

A sample risk register is included in the online resources.

Define and delegate

Saying 'Don't' or 'No' is preferable to saying 'Do' or 'Yes'

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. Three 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.

Approaches to writing a statement of delegation

There are three commonly used ways a board could document its delegation to its chief executive:

1. **It could specify** what it wants its chief executive to do by stating that certain things must be done. This might be thought of as a 'Yes' approach. Historically most boards have used this approach.
2. **It could make clear** what it doesn't want its chief executive to do. This might be thought of as a 'No' approach. This is the approach used in Carver's Policy Governance model, in which they are termed Executive Limitation policies; or
3. **It could state** a raft of matters that the board and only the board has the authority to do or authorise. This might be thought of as a 'Yes' to the board and a 'No' to the chief executive approach. This approach is commonly known as Powers Reserved (to the board).

1. The prescriptive or 'Do' approach

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 and 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; that is, a prescriptive list can be never-ending. 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 or 'Don't' 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 or actions 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 permissible.

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

All of the Delegation policies in the online resource are written in this way.

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 The powers reserved approach

This approach requires the board to state which powers or decisions it reserves to itself, thereby making clear that these are not within the chief executive's prerogative. This approach is similar to the limitations or 'no' approach in that it clearly demarcates the board's decisions from the chief executive's, while allowing the chief executive considerable latitude in determining which decisions he or she will make within the authority granted by the board. It differs from the limitations approach, however, in that it speaks to the board rather than the chief executive. To this end it provides the chief executive with much greater freedom than is granted by using the limitations approach. With this increased freedom comes increased risk.

What might be in the chief executive's delegation?

It is recommended that, before reading this section, you download the Delegation policies from the online resource.

As has been stated, the sample policies in the online resource follow the Carver Policy Governance principles and thus are written in proscriptive form. The guiding principle that governs the way the policies are structured requires that each policy set (Governance Process, Board-CEO Interrelationship and CEO Delegation policies) commences with an overarching policy that sets the tone for the policies to follow in that set.

The overarching policy in the CEO Delegation policy set states:

Overarching Chief Executive Limitation

The Chief Executive must not take, allow or approve any action or circumstance in the name of (Name of organisation) that is in breach of the law, is imprudent, which contravenes any organisation specific or commonly held business or professional ethic or is in breach of generally accepted accounting principles.

In the event that the policies to follow miss a point or fail to fully articulate a particular board expectation, this overarching 'catch all' statement is designed to provide general guidance to the chief executive: don't break the law, don't do anything imprudent or unethical, and don't work outside of accepted accounting and general business practices.

The Delegation policies that make up the rest of this policy set expand on the areas of ethics and prudence covering:

- several financial delegation policies – budgeting and financial planning, day-to-day financial management, employee remuneration and benefits;
- protection of assets;
- communication and support to the board;
- emergency CEO succession;
- employment conditions; and
- public affairs.

In each case the sample limitation policy covers basic matters that the majority of board members wish to address. Before adopting the policies offered, your board should spend time looking in depth at each one to ensure the language is right, the policy addresses your organisation's values and priorities, and nothing is missed or is present that does not need to be.

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

The chair-chief executive relationship

Should there be a special relationship?

Some governance thinkers have suggested there should be no independent relationship between these two key figures. 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. The reality on the ground is that this is not a view shared by many chief executives, boards or chairs. However, 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.

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. It is then essential that the two leaders be consistent.

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

How often?

Many chief executives and their chairs 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 common sense 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 adopting the sample charter will note that it speaks to this relationship in the Chairman Role Description policy as follows:

With the approval of the Board the Chairperson may establish a regular communication arrangement with the Chief Executive in which there is an exchange of information. This might also provide 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;

a. *The Chairperson will recognise that such sessions are not used to 'personally' supervise or direct the Chief Executive.*
b. *The Chairperson will maintain an appropriate professional distance from the Chief Executive to ensure objectivity and attention to governance matters and concerns,*
c. *The Chairperson will not inhibit the free flow of information to the Board necessary for sound governance. Therefore the Chairperson will never come between the Board and its formal links with the Chief Executive.*

Evaluating the chief executive's performance

A desirable approach

Effective chief executive performance management by a board is critical.

The sample CEO Performance Assessment policy in the sample online policies makes it clear that the chief executive's performance is assessed only against those matters that the board has charged him or her with carrying out. In essence this can be boiled down to two short statements:

- Achieve the outcomes stated in the Statement of Strategic Direction (Strategic Plan, Ends policies); and
- In doing so, remain with the authorities delegated by the board.

Underpinning this are several general principles that cover the fairness and integrity of the process.

1. A chief executive should be evaluated against objective, agreed criteria.
2. The chief executive should not be accountable for the performance of personnel they did not personally select or do not have full managerial authority over.
3. 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.

4. 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.
5. While the initial assessment of effectiveness might be delegated to a board sub-committee, the final responsibility for the performance assessment belongs with the board as a *whole*.
6. 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 advanced 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 Key Results from the Delegation policies.

2. Performance monitoring

The board should avoid rushed, and late, annual reviews. These are heavily influenced by recent events. Continuous informal feedback is best. It should be affirmative and identify 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.

Additionally, 'stocktakes' might take place every three to four months. These provide a chance to reset expectations before it is too late.

It is commonplace for there to 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 charter in the online resources offers sample terms of reference for a CEO Performance Management Committee.

This provides a means for a board committee to assist the board to carry out the chief executive's performance assessment.

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 degree surveys should be considered.

4. Ensure up-to-date 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 have either 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 those rates. There are various proprietary salary surveys available for this.

Sport New Zealand conducts an annual survey of sector salaries that is available to the organisations that contribute to the data. This includes benchmark data for chief executive salaries.

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 intra-board conflict as well. It can also be expensive financially, leading to loss of organisational momentum, increased staff turnover, strained relationships, and 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, for example a disputes resolution policy.

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

Questions

Does the board really want a chief executive?

- Where is the board in terms of its lifecycle?
- 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 about 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-to-date assessment of risk?
- Do the delegations 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 on its employment relationship with its chief executive (employment contract, etc.)?
- Does it regularly (at least annually) document its expectations about 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?

Online resources @ www.sportnz.org.nz/governance

- Letter of expectation to the incoming chief executive
- Chief executive performance agreement
- Risk register
- Delegations and Limitation policies (included in board charter)
- Terms of reference for a chief executive review committee

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* The articles from the publication *Good Governance* referred to throughout this document are available in the online resources.

STEP 4: PROVIDE STRATEGIC LEADERSHIP

I skate to **where** the puck is going to be, **not** where it has **been** – Wayne Gretzky

STEP 4: PROVIDE STRATEGIC LEADERSHIP

"The board's role is to invent the future, not mind the shop." – John Carver

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.

A board which provides strategic leadership will have:

- a process for defining the organisation's purpose, desired strategic outcomes and values, and ensuring these 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 that 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.

"...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 either to confront fundamental philosophical differences between directors or to challenge one or more dominant individuals who are either anti-planning 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 that 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.

Define the main strategic challenges

The board and the executive team should periodically work together to identify the main strategic challenges facing the organisation.

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

- a plan, direction, guide or course of action into the future, a path to get from here to there;
- a decision-making pattern ensuring consistency in behaviour over time;
- 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.

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 is our purpose, our reason for being?
- If this organisation didn't already exist why would someone have to create it?
- What is our vision for the medium-to longer-term future?
- Is this consistent with our current direction and priorities?
- Who are the beneficiaries of our work? Are these still the right people or groups?
- What is the 'essence', ethos or spirit of this organisation?
- What is important to us?
- What do we stand for?
- Where does the organisation stand in terms of its desired achievements?
- Where could we be going?
- What should we be doing or becoming?
- 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 are, at best, difficult.

Defining outcomes

The Policy Governance model that this Nine Steps process is broadly based on makes clear that the board establishes the organisational 'ends' or outcomes, and the chief executive and management establish the 'means' or methods for achieving the ends. The establishment of organisational ends is premised on the questions:

1. For whom does this organisation exist? (Who do we serve?)
2. What benefit do we provide or offer?
3. What are the costs associated with providing that benefit, economic costs, i.e. the budget allocation and priorities, and what social costs, e.g. who will miss out as the result of our decisions?

By answering these questions the board and management are forced to look outwards to their clients, customers, shareholders, members, participants, etc. rather than looking inwards and focusing on bricks and mortar, staffing and finances. The reality is that the organisation exists to serve an external clientele, not its own internal interests. Sports organisations exist for participants in one form or another, not the staff. Sometimes this can be forgotten.

Focus on results, not methods

A board should ensure 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. 'assisting', '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.

For example:

"We will help children, under the age of 12 to learn to swim" draws attention to our efforts rather than the participants' achievements. It is about our actions, and thus the measure of effectiveness could easily be construed to be the amount of 'helping' we have done regardless of whether or not participants have actually learned to swim.

Alternatively:

"All children aged 12 will be able to swim 200m" is clearly about an outcome for participants. It answers the question, "What benefit will we provide and for which people?" The measure of success is unambiguous – are all children aged 12 able to swim 200m, yes or no?

This makes it clear what the result is and who the target to receive the benefit is. Accordingly it specifies the 'ends' (the board's role) but not the 'means' (the management's role).

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 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.

A set of strategic thinking tools is included in the online resources.

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 and is offered in an order designed to provide a logical, cascading train of thought.

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). Two good starting questions are, ''If this organisation did not already exist why would we create it?" and ''What benefit do we provide to which people?"

1. ***Vision statement*** – can be useful as a statement of the ultimate future the board wishes the organisation to achieve.
2. ***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..." In essence, the values define an operating philosophy for the organisation.

3. ***Key Result Areas or KRAs*** – these provide a framework for identifying the sets of outcomes the organisation wishes to achieve. They are the organisation's high-level, longer-term deliverables. Stated as if they've been achieved, these articulate the difference the organisation plans to make to its world if it's successful. Each KRA will have one high-level outcome that frames the desired achievement of that area or organisational operation.
4. ***Key results*** – the organisation's shorter-term achievements that sit under each of the KRAs. Each key result is a subset of a larger strategic outcome as stated in the KRA key statement.
5. ***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.
6. ***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 (rather than simply an inventory of wishful thinking).

The strategic plan

It is useful to compress the strategic plan into one or two pages. This assists in communication with stakeholders. Most importantly, a crisp set of KRAs broken down into annual targets will significantly aid the board in understanding management's progress against the plan.

For detailed information on strategic planning please see the Sport New Zealand resource available at www.sportnz.org.nz/governance

Good practice examples from the sector are also available in the online resources.

Operational planning

Once the board is satisfied that it has made clear its desired strategic direction, and the chief executive and board, in partnership, have agreed on the performance measures, the chief executive is then charged with the task of developing a business or operational plan. This might be for one year or could cover a wider time span.

Some boards will want to 'sign off' or adopt the operational plan. It is recommended that boards should pause and think before doing this. By 'signing off' or adopting the operational plan, a board, in effect, takes ownership of it. This then means the chief executive cannot make changes to the plan without board approval. To all intents and purposes it has now become a board document.

It is far better that the chief executive presents the operational plan to the board, even walking it through the various plans and objectives, providing board members with the comfort that sound planning has been undertaken, based on clear thinking. Provided the directors are comfortable that the operational plan is sufficiently robust and is directed towards the achievement of the KRAs, etc., then all they need to do is to say, *"Well done. Keep us informed about changes that you make to this plan and why. We recognise that this is your day-to-day plan and that you will need to make changes in response to changing circumstances. We don't want to inhibit you in doing this. We just want to be kept informed, to be taken on the journey as this unfolds. But we do remind you that you will be held to account for the achievement of the KRAs and Key Results, not for* ***doing*** *the things in your operational plan."*

This last point is important. Many chief executives report against their operational plan rather than against the strategic plan. The result is that they report 'activity' rather than 'outcomes' and the board is subsequently pulled down into operations rather than remaining at the governance level where it should be.

Working with an external facilitator

If you plan to use an outside facilitator and are following the Nine Step process, it is imperative that your facilitator is thoroughly familiar with the outcomes-focused approach to writing the statement of strategic direction or strategic plan, whichever it is called. Most independent planning facilitators have their own methodology and this might not deliver the results you want. Remember, if the plan is written as a set of intentions or activities, that is almost certainly what you will end up monitoring, and that is not desirable. If your independent facilitator does not agree to follow the process outlined in this chapter, then we suggest you either select one who will or else abandon the Carver Policy Governance process on which the Nine Steps approach is based. Everything in the model is geared towards a results-based approach to planning and without this the model will not work as designed – a bit like buying a car with only three wheels or without a steering wheel and expecting it to work.

Stakeholder relations

No organisation exists solely for its own sake.

In the commercial world the concept of company ownership is easily and well understood. It is those people whose money facilitates the company doing business. These would be public shareholders of a listed company, or family members in a family-owned business (who will also be shareholders). Shareholders have a legal entitlement to a small or large portion of ownership of the company in which they hold shares.

Ownership

In the not-for-profit sector the concept of 'ownership' is not as commonly used. There are, however, people who are the equivalent of shareholders who might be thought of as 'legal owners'. They are entitled to attend the AGM with voting rights. They can change the constitution, place board members on and off the board and, ultimately, wind up the legal entity. In this context the term 'legal' only carries limited weight. The legal owners will be the members of an incorporated society or the trustees of a charitable trust.

In most instances these so called 'legal owners' are not the people for whom the organisation has been established. Most not-for-profit organisations, including sports organisations, are established to serve the interests of individuals and groups in the community who are not, or need not be, members of the organisation. Constitutions of not-for-profit organisations, when defining membership, often show this is restricted to a small number of individuals and/or groups. The 'owners' of a charitable trust are the trustees. There might be as few as six or eight of these, yet the trust might serve the interests of hundreds if not thousands of individuals. Take, for example, Sport Northland, which sees every Northlander as being within its ambit of influence.

The point of this is to make clear that, when planning, the *board and management* need to look beyond their 'members' to all the people they serve and ensure their wider interests are accounted for in the plan.

In the case of a sports trust, the organisation probably exists for the community as a whole. While some sports organisations exist only for their members, e.g. a golf club or a squash club, many exist for all participants, present and future, who participate in that sport, whether a member or not.

Both members and participants of a sport have stakeholder interests in the organisation.

Thinking about the stakeholders

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 to whom the board considers it is *primarily* accountable should attract the most attention. Boards should involve stakeholders when planning direction and priorities.

A board needs to develop a stakeholder relationship plan 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 recreation 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 the board's overall strategy nor drive its decision making, the board has a moral responsibility to consult with stakeholders about their expectations and requirements.

Tools for analysing stakeholder interests are included in the online resources.

Strategic risk management

Another important component in a board's strategic leadership role is the identification and oversight of risk and 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 Sport New Zealand input and is available through Sport New Zealand or directly from Standards New Zealand.

The Sport New Zealand risk management tool is available online.

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

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 too lenient or reckless.

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 affect the amount of risk confronting the 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. A board must ensure the 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 group of questions:

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 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.

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.

- 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 your board have a simple, brief document that sets out its 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 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?

Online resources @ www.sportnz.org.nz

Sport New Zealand publications:

- Strategic and Business Planning
- Creating a Stakeholder Communications Plan
- Risk Management of Events

Sector samples of strategic plans

Sport New Zealand Risk Management Toolkit

References and further information

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Light, M 2001,	*The Strategic Board*, John Wiley & Sons, New York.
Nahkies, G & Kilmister, T 1999,	What is the Board's Role in Strategic Planning Anyway? *Good Governance*, No. 8, 1-3.

* The articles from the publication *Good Governance* referred to throughout this document are available in the online resources.

STEP 5: MAKE BOARD MEETINGS COUNT

a camel is a horse designed by committee

– Sir Alec Issigonis

STEP 5: MAKE BOARD MEETINGS COUNT

A board's productivity and effectiveness are 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 is where the board adds real value. It should focus on two core elements:

- desired strategic achievements and an 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 – in other words, monitoring the chief executive and organisational compliance with board policies and externally imposed statutes and requirements.

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. Every six weeks is a common cycle.

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.

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.

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.

Board meeting focus and structure

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

Boards can 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.

Boards may benefit from an occasional review of their use of time, 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 that category.

These can be scheduled into an annual agenda as outlined in Step 7.

Board meeting 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 on 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.

Some boards use what is commonly known as a consent agenda. This groups items that are presumed to need no discussion but can be ratified in one motion. This may include reports vetted by committees.

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

- effective meeting planning and strong meeting management;
- appropriate, concise board papers that 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.

Develop a 12-month or annual agenda

In recent years it has become common practice for boards to develop a 12-month or annual agenda. This ensures directors view their job as continuous rather than episodic. Another way to view this process is to think of it as the board's annual work plan. This is addressed in detail in Step 7.

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 is 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, don't dominate discussion, listen actively to others, and don't 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.

Requests from the chief executive to discuss operational matters

Operational decision making is the chief executive's responsibility. This isn't to say the experience of individual directors should not be available to the chief executive. For the most part individual director expertise is best made available outside of board meetings. As has been discussed, board meetings are for carrying out board business, not assisting the chief executive to address his or her operational issues. Having said this, there may be times when both the directors and the chief executive agree an operational issue is of sufficient significance that time should be set aside at the board meeting for the chief executive to engage with the board as a whole. These occasions should be rare and should be run with the express purpose of offering advice or guidance to the chief executive, not to make decisions on his or her behalf. A time limit should be set for the discussion.

As a general rule, however, 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.

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 earlier decisions. Keep this aspect 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 agenda item in its own right.

Staff reports about operational matters

Reports not targeted to governance responsibilities detract from effective board performance.

'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.

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, these shouldn't take up meeting time if they have no direct policy or broader governance relevance.

Board meeting roles and responsibilities

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*.

Board monitoring – management reporting

Monitoring is at the heart of the board's job. In essence, it is the means by which the board discharges its accountability to provide assurance that the criteria it has set for the carrying out of certain actions and the achievement of certain outcomes have been met. Bearing in mind that, in the first place, the board set these criteria for a purpose – to protect and enhance the organisation on behalf of its owners/key stakeholders – the board is obliged to then ensure its instructions have been followed.

But monitoring can be problematic for boards. In the absence of a clear understanding of the purpose of monitoring and an agreed process based on sound governance principles, this board task, perhaps more than any other, can inhibit the creation and maintenance of a sound board-chief executive relationship and reduce overall governance effectiveness. Among the inhibitors to effective monitoring are:

- The board has no criteria against which to monitor the chief executive's actions and reports.
- Board members bring their own subjective interpretation of the board's criteria and judge chief executive compliance on the basis of how they would have met the criteria themselves if they were in the chief executive's shoes; and
- The reporting submitted by the chief executive either does not address the board's criteria or the chief executive presents too little or too much data.

Monitoring should be systematic

Reporting to the board can be the bane of many chief executives' lives. Few boards give explicit instructions to their chief executive about what is to be reported and thus what will be monitored. Many, if not most, chief executives are left having to second-guess their board's requirements. Unsystematic reporting leads to unsystematic monitoring. This does not work for either the chief executive or the board.

The following three principles guide the board and the chief executive in determining what is to be monitored and therefore what is to be reported:

(a) The board, in the first instance, must determine what results or actions it wants to monitor and capture these in policy as performance criteria to be met.

(b) When the board has set criteria for what must or must not be done, and what must be achieved, the chief executive is obliged to report against these criteria; and

(c) The board should make clear to the chief executive how (i.e. in what form) specific matters should be reported.

Monitoring criteria made clear

One of the reasons why so few boards make clear to the chief executive their monitoring requirements is that, in many cases, directors do not know what they need to monitor, other than in the most general terms. They know they need to monitor the organisation's finances, but exactly what financial information should they monitor? They know that certain operational elements are critical to the achievement of the desired outcomes, but which of these are relevant to the board and which are strictly management matters? They know they should be adding value to the work of the chief executive and staff, but how can they when they don't know enough about the work to be done or when, in some instances, the issues are so technical that only specialist staff members understand the issues? So what should they monitor, and how?

Understanding the business

One of the common misconceptions about governance is that it requires a highly detailed knowledge of the business being governed. While it is true that all directors must understand, in a general sense, the business of their organisation, they do not need to be experts in that business to be an effective director – at least not in the sense that staff are, or are expected to be, experts.

The role of the board is to govern the organisation, not to manage it, and to this end, directors should be experts in governance not operations. However, the application of governance skills requires a sound background of organisational knowledge. This knowledge will typically result from past or current experience in the organisation's business, but most commonly from reading, interpreting, questioning and monitoring the content of many chief executive reports.

The dual processes of reporting and monitoring not only keep directors informed about the organisation's performance but are also excellent mechanisms for creating and growing a bank of organisational knowledge relevant to the board's governance role.

Monitoring based on policies

When the board establishes a policy framework, it has the basis for systematic monitoring. Policies make clear what is, or is not to be done, and what is to be achieved. Monitoring is then made simple – has the chief executive complied, have the results been achieved, is the board working to its own policies?

Quite simply, board monitoring is a criterion-referenced activity. Boards that grasp this concept suddenly find their monitoring role to be not only much easier to define and carry out, but also much more effective.

In monitoring compliance with policy, the board must ensure the data it receives from the chief executive is presented in a way that enables understanding and interpretation. This requirement, too, should be presented as a criterion. Typically boards address specific areas of operational risk by developing issue-specific policies, e.g. in the various areas of finances, personnel, protection of assets, etc. In addition to these policies, we recommend the board develop a policy that speaks directly to its own needs for information and support.

A sample Communication and Support to the Board policy is included in the online board charter.

Respecting the CEO's choices

Many boards are blessed with board members with extensive skills and experience in the business of the organisation, but these same board members become a curse when they try to superimpose their own version of appropriate actions over those of the chief executive.

Such board members are judging the chief executive not against the outcomes achieved (within the limitations imposed), but rather in terms of how they would have approached the same issue.

It makes little sense that the board should hire a competent chief executive and then tell him/her exactly what actions or decisions to take.

Allowing the chief executive to make the operational choices can be hard for some board members to accept, especially those with relevant expertise. But they must do so or they risk taking over the chief executive's decision-making responsibility and undermining the board's ability to hold him/her accountable.

Given that the board has developed a policy framework which provides a clear set of performance expectations for the chief executive, a board must allow the chief executive to exercise a reasonable interpretation of those policies. By this statement we mean a reasonable chief executive interpretation, not a reasonable board interpretation. If the board has not been sufficiently clear in its policy making – and it is unhappy with the outcome of the chief executive's actions because of that – it is the board's responsibility to amend the policy accordingly.

Boards should not fear this freedom of interpretation given to the chief executive for, in the end, they control the policy which determines the extent of freedom. The board, then, is the ultimate controller. However, it must exercise that control ethically and fairly.

Having placed the policy 'goal posts', the board must accept the chief executive's efforts to achieve the desired outcomes. The goal posts should not be moved without making clear to the chief executive, ahead of time, that this is to occur and why.

The 'reasonable interpretation' concept, then, is consistent with principles of natural justice.

Too much or too little monitoring data

Too much data can be as inhibiting to effective monitoring as too little. Many directors find themselves having to pore over pages of often irrelevant information, feeling that, because the chief executive has presented it all, it must all be read. One of the competencies found among good boards is that they have made clear to the chief executive not only what they want reported and how, but how much reporting data is necessary to enable effective monitoring.

What good board papers look like

Ensuring the papers directors receive are of a consistently high standard and include the information required for sound decision making should not be left to chance.

The first step in achieving this is to understand the board's expectations of the papers and reports, and to fully appreciate the required writing and content standards. In some cases it may be necessary to educate the board, the chief executive and the staff as to such standards.

The next step is to ensure staff have the knowledge and ability to meet these standards.

Even when this is achieved, a board should be prepared to reject papers that do not meet its requirements. It should return them for redrafting. It is a hard but important lesson for staff to learn that meeting the board's expectations about the quality of papers and reports will not only improve the quality of the board's deliberations and decision making, but also assist staff to avoid delays and unnecessary extra work in the face of deadlines.

Write to the board's issues and concerns, not management's

A simple but effective principle will ensure all reports and papers presented to the board are written 'upwards', relevant to the board's interests and concerns rather than asking directors to come 'down' to management's interests. The principle is:

Commence every report or board paper with a statement made by the board in its policies or statement of strategic direction, e.g. a specific outcome, or that relates to something drawn from the constitution or some other document written at the board level.

If no such statement or governance context exists, the writer should ask him or herself, "Why am I writing this?" The answer could be because the writer wants to tell the directors about something that he or she is doing that they want recognition for. Or it could be because the writer thinks the matter is interesting (to him or her) and therefore the board might be similarly interested. Alternatively it could be because the writer wants to alert the board to a matter that, in their opinion, should be documented in policy or in the strategic plan. In such instances the writer would state this and provide the context for the issue to be presented. In all other cases, the writer should cease writing and if, after examining their reasons for writing the paper or report, the answer is that there is no board context, the writer should stop writing and save both his or her time and the board's.

Report length

Whether a report or board paper is written in haste or at leisure, the writer should keep in mind that there is a heavy demand on an individual director's and the board's time, and that not all directors will have an intimate knowledge of the matters which a board must consider. A particular challenge, therefore, is to strike a balance between the need to provide sufficient information and explanation on the one hand and the desirability of precision and brevity on the other.

Unless a special case can be made, board papers should be no more than four to six pages long (including appendices). This initially determined limit might be somewhat arbitrary but it can be adjusted as experience is gained over time.

It is important for staff to understand that a well-formatted and well-presented paper will help directors to quickly absorb the content of the paper.

Tell them what you are going to tell them, then tell them, and finally remind them what you have told them.

Good presentation can greatly assist directors to engage with papers prepared for their consideration. There are several dimensions to this.

Consistency of format is important. As shown in the *sample board paper layout in the online resources*, every paper should begin with a reference to the board's issues and concerns. There should also be a statement of intent or outcome sought from the paper, e.g. for information only, for a decision, background to a policy issue, etc. If possible, the paper should indicate which Key Result Area it is addressing. The paper or report should end with either a recommendation, if appropriate, or a very brief summary of the content, of not more than two or three sentences.

The five broad sections of the report are:

1. The purpose of the report and outcome or intent of the paper
2. The context and brief background if required
3. The content
4. Summary
5. Recommendations.

Brevity, simplicity and clarity

Papers for the board should not only be concise (only including essential information), but should also be coherent and logical, because brevity without clarity helps no one.

Papers for the board should be written as simply as possible and in plain language. It is a good discipline that papers being prepared for the board – even one comprising industry insiders – should not assume the readers have expert knowledge. That is not to suggest the writer should 'talk down' to the board, but that the use of expression and language should support accuracy of interpretation.

Inevitably, some directors will be better informed about an issue than others. For the same reason, a board paper should not assume that readers have a photographic memory about relevant past history. Each board paper should be self-contained and not force the reader to refer back to previous board papers or to recall past decisions.

Accuracy is also vital. It is easy to overlook simple spelling and punctuation mistakes that, when read by someone else, jump off the page. When this happens frequently, it can convey an impression of sloppiness that can easily undermine confidence in the conclusions in the paper or report. Good proofreading is indispensable.

When what is reported and concluded lacks substance and reliability, more far-reaching consequences are possible.

In summary, a good board paper:

- starts with the governance context for the paper or report;
- is structured so that content is relevant and the key issues stand out;
- avoids unnecessary detail – summarises instead (where detailed information is vital to the issue this is placed in appendices);
- avoids unnecessary jargon, abbreviations, etc.;
- uses diagrams and charts to aid interpretation and understanding;
- has clear recommendations so that decisions the board is asked to make can be easily and logically assessed; and
- is accurate and free from basic spelling, punctuation and grammatical errors.

In terms of layout, a good board paper will also:

- use headings and subheadings, short sentences and paragraphs, and bullet points where possible;
- number all paragraphs for easy reference;
- have all pages numbered, including the appendices;
- use bold text for headings of a size that is easy to read; and
- have plenty of 'white space' – avoiding cramming on the page.

The board chair's role before and at the meeting

The chair has a key role to play before the meeting and throughout the meeting itself.

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

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, 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. Part of the chair's role is to ensure any hidden agendas are brought into the open and addressed. Openness and honesty set the stage for clarity and form the foundation for a climate in which all directors feel comfortable expressing their opinions. This is the basis for the formulation of clear policy, reflecting mutual agreement.

All discussion should focus on how to support the mission, not on *who is right*. Focusing on the mission can depersonalise issues.

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.

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. 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, 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 letters of engagement (see online resources)* that clarify expectations and structured peer feedback processes to manage their own and their peers' governance performance.

The chief executive's role at board meetings

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

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

- financial information;
- reports on the 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.

The Communication and Support to the Board policy in the online resources sample board manual and policies is a starting point for a board in setting its reporting requirements. Boards adopting and using this policy might choose to add some further specific requirements.

Should the board meet alone?

In both the for-profit and the not-for-profit world there is a growing trend for boards to meet alone at the front end of board meetings. This is commonly known as 'board only time' and has its origin in the company world where CEOs, CFOs and COOs were also board members, i.e. executive directors. These individuals are frequently strong, dominant personalities who can override the independent or non-executive directors' opinions and contributions. After the recent large-scale corporate meltdown it was deemed good practice for the non-executive directors to meet alone to achieve governance positions that were not tainted by the vested interests that executive directors carry.

The practice has continued and has been taken up in all sectors and found to be invaluable for knitting the board together before the board meeting.

Many boards use this time to enable directors to discuss the emphasis of the meeting to follow, to allocate time to agenda items or to address internal board matters such as conflict between board members that should not be addressed in front of employees. Directors also use this time to discuss their view of papers and reports, and to ask questions of each other that they might feel inhibited to ask in front of senior staff.

There might also be circumstances which might justify the exclusion of the chief executive 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;
- conflicts of interest involving either the chief executive or individual board members;
- concerns about the relationship between the board and the 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 these sessions should not make decisions, and 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, or 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 under way. 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.

Using committees and working parties to help the board do its work

In addition to their prescheduled tasks, board committees and working parties can be used to assist the board to prepare for and carry out important discussion at the board meeting. It is not uncommon for a working party or an existing standing committee to be asked to carry out some initial thinking or research and to then bring this to the boardroom. Board meeting time is saved and the initial thinking could mean the full board discussion starts at a higher level, enabling a quicker outcome.

Board committees are discussed in the Governance Concepts section at the beginning of this resource.

Questions

Board meetings, agenda design and meeting content

- Is our agenda structured so we prioritise strategic and long-term issues?
- At the end of each board meeting have directors answered 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?
- Is material coming to the board in a way that permits good decision making?

Online resources @ www.sportnz.org.nz/governance

Sample board papers:

- Forms of agenda
- Register of interests
- Risk register
- Board paper structure
- Reporting against the strategic plan
- Financial reporting

Communications and support to the board policy (included in the board charter)

Director's letter of engagement (commitment letter)

Decision making: processes, options and a sample decision paper

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* The articles from the publication *Good Governance* referred to throughout this document are available in the online resources.

STEP 6: STAY ON TOP OF THE GOVERNANCE ROLE

Leaders keep their eyes on the **horizon,** not just on the **bottom line** – Warren G. Bennis

STEP 6: STAY ON TOP OF THE GOVERNANCE ROLE

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:

1. The board should only monitor against pre-established criteria.

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

2. The board should establish criteria for what it wants achieved. If this principle is not followed, monitoring is likely to be ad hoc, misdirected and unfair, all of which lead to lost time, staff confusion, inefficiency and a potentially adversarial board-chief executive relationship.

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. Monitoring is a core governance function. Part of a board's duty of care is to ensure 'everything is as it ought to be'. Excessive monitoring, however, can distract a board from its forward looking, value-adding role. Ideally, only a small portion of any board meeting time should be devoted to monitoring. When performance criteria are determined in advance, monitoring becomes very straightforward. The chief executive simply reports against such pre-determined criteria and directors are quickly and easily able to assess satisfaction with performance.

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

Evaluation

Evaluation is making a judgement, mainly 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.

Policies as the basis for monitoring

One of the distinct advantages of the Carver Policy Governance model is that boards govern on the basis of policy. Chief executives, in turn, are provided with clear instructions about what they should achieve and what they can and cannot do in the process of achieving. In effect, by creating policies as required by the Policy Governance model, boards create the criteria by which the chief executive reports and the board monitors and evaluates. In addition to the broad sweep of policies the chief executive uses to assist him or her to manage the organisation to the satisfaction of the board, there is one specific policy that addresses board monitoring. Among the policies in the *online resource sample board charter and policies is a Communication and Support to the Board' policy* that makes clear what the chief executive should not fail to report or keep the board informed of. Like all of the policies written in this proscriptive form, the policy states the minimum requirement of the board.

Once the chief executive has satisfied the board's requirements as stated in the policy, he or she is free to report or inform the board about all other matters that are deemed to be relevant to the board's duties, concerns and interests.

Avoid wandering into the operational sphere

For the most part, board meetings should focus on the organisation's 'what' and 'why'. In other words on ends rather than means. When a board starts to wander into the operational sphere, this will become obvious because the board will be talking about the 'how'. However, there should not be a blanket rule against addressing the 'how' or means. There may well be times when it is necessary for the chief executive to discuss operational matters in order for directors to understand the implications of one of their strategic statements. Care should be taken, however, to ensure board time is not wasted on long discussions about operational matters. Once a context is established or clarification is achieved, the board should get back up to its governing role, focusing forward and on outcomes.

Performance measures

Many boards struggle to set performance expectations and this leads to many organisational and executive performance problems.

Poorly expressed expectations will almost certainly 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 chief executive should design the performance measures. 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:

1. **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. 'Busyness' 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. **Failure to be exact**. It is even better to be more specific: 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 the Government increases funding to the organisation" line. The organisation has no control over the Government so cannot expect this to eventuate.

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 a board largely consists of volunteers who serve for short terms, 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, or 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 similar organisations. The presence of truly independent directors will also help provide the necessary perspective for regular tyre kicking.

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.

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?

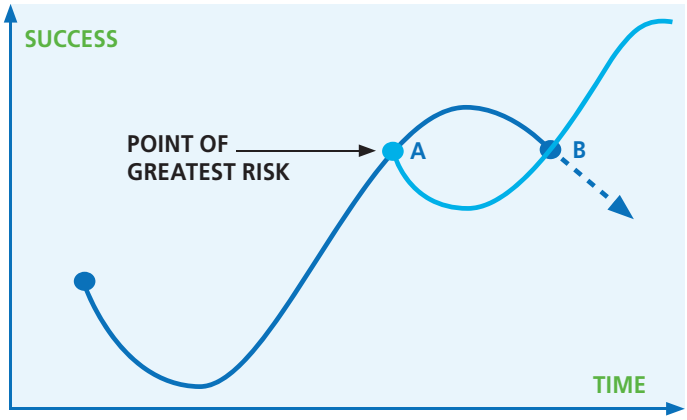
Social philosopher and organisational behaviour expert Charles Handy has described how organisations have a natural 'wax and wane' cycle. Handy uses the 'Sigmoid Curve' (following page) to show how organisations develop and then decline if they do not reinvent themselves. In his view, organisations are 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 with 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 aligned	Dilemma • Gather data in support of further development or initiation of these • 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 • Question priority status in terms of other demands • Exploit for public relations/ membership benefits	Painful Fit • Eliminate from your organisation's list of priorities • Say "No" to establishing one of these

Capability = Ability to resource for effective outcomes
Demand = Programme and service 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 is often biased 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 its 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 brainstorming 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.

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

Online resources @ www.sportnz.org.nz/governance

- Communication and Support to the Board policy (in board charter)
- Decision making: includes material on Six Thinking Hats and other evaluation methods
- Strategic and Business Planning (Sport New Zealand publication)
- Sample reporting against the strategic plan

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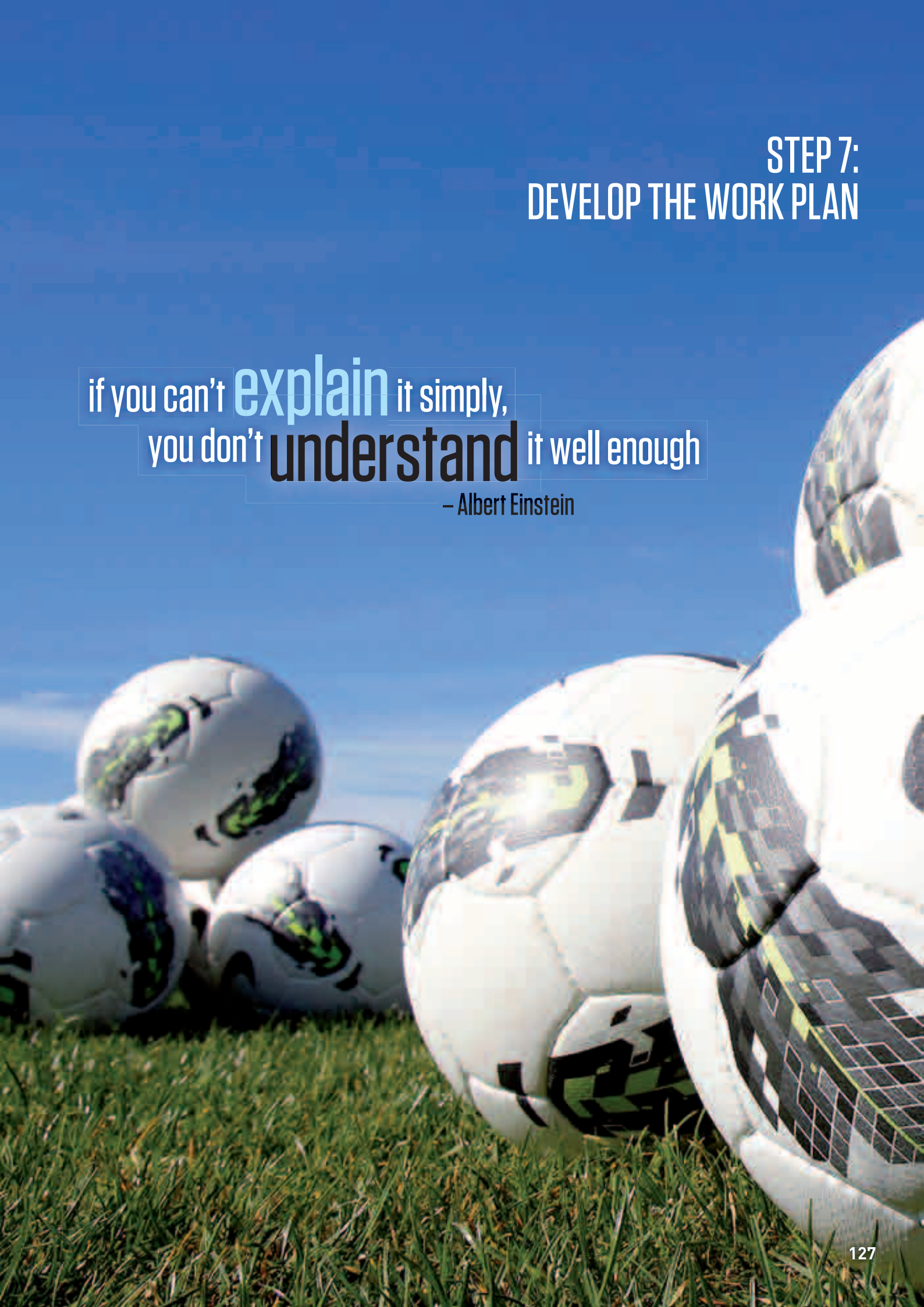
STEP 7:
DEVELOP THE WORK PLAN



STEP 7: DEVELOP THE WORK PLAN

The board should control the shape and content of its meetings

Elaboration of an annual schedule of board meetings, board retreats, etc. into an annual agenda ensures 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 or in an episodic manner. The annual agenda needs to be defined well ahead of time.

Developing an 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.

In addition to the matters brought to the board at every meeting, e.g. financial reports, 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 dates for significant events such as national championships, annual awards dinners, etc.

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 the board schedule an in-depth discussion during the year against each of the Key Result Areas. This ensures these core strategic outcome statements are examined by the board at least quarterly. This serves as an in-depth analysis of the chief executive's achievements, while strengthening board members' knowledge about the organisation's desired results.

A sample set of meeting agendas are in the online resources.

Sample work plan

January	February	March
	3/2 Audit & Risk Committee **10/2** Board meeting	**30/3** Board meeting Quarterly policy review Annual governance review (chair this year) Governance development plan update
April	**May**	**June**
20/4 Annual strategic review (full day)	**8/5** CE Performance Review Committee **10/5** Audit & Risk Committee **20/5** Board meeting Annual budget	**30/6** Board meeting Six-monthly CE review Quarterly policy review
July	**August**	**September**
12 & 13/7 National championships	**3/8** Audit & Risk Committee **10/8** Board meeting Year-end strategic and financial report Quarterly policy review	**20/9** Board meeting **20/9** AGM
October	**November**	**December**
10/10 Board member induction day **30/10** Board meeting Annual stakeholder plan review	**20/11** CE Performance Review Committee **25/11** Audit & Risk Committee	**5/12** Board meeting Six-monthly CE review Quarterly policy review

Question

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

Online resources @ www.sportnz.org.nz/governance

- Sample meeting agendas

References and further information

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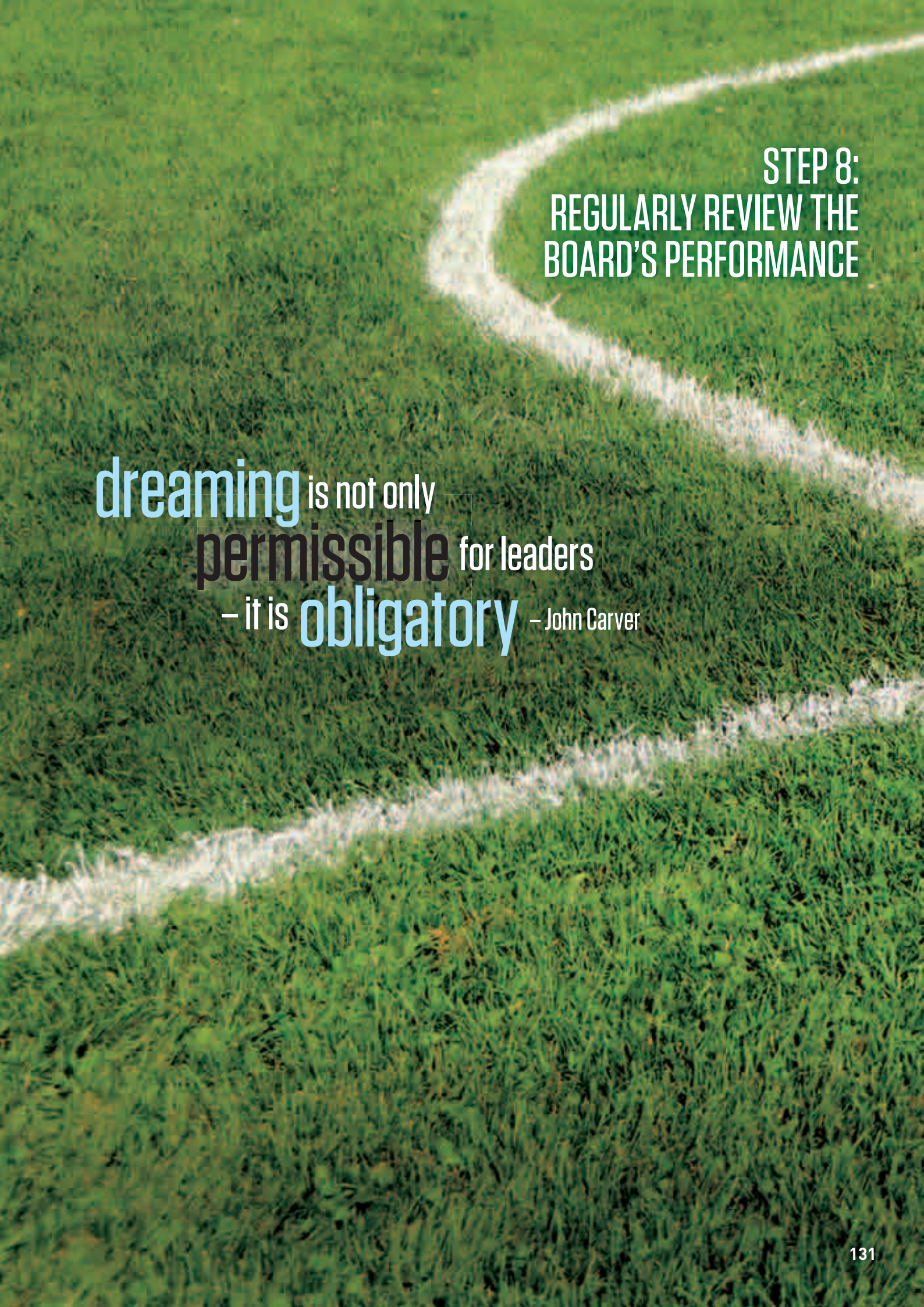
* The articles from the publication *Good Governance* referred to throughout this document are available in the online resources.



STEP 8: REGULARLY REVIEW THE BOARD'S PERFORMANCE

dreaming is not only **permissible** for leaders – it is **obligatory** – John Carver

STEP 8: REGULARLY REVIEW THE BOARD'S PERFORMANCE

The board should set standards for its own performance

A governance effectiveness review is designed to serve a number of key purposes:

- It offers directors the opportunity to hold a mirror to their own practices and processes, and to identify those matters that require attention.
- It facilitates greater openness about the importance of good governance.
- The process compels directors to examine their strategic responsibilities, their decision-making processes and stakeholder relationships.
- The process encourages directors to talk openly about their various views of the board's performance.
- It closes the loop in the organisation's performance measurement circle.
- The peer and self-assessment provides an otherwise hidden snapshot of shared opinions about the contributions made by individual directors.
- A benchmark is developed against which future board performance reviews can be set.
- The process results in the development of performance improvement targets, objectives and action plans that become the focus of much of the board's internal attention for the coming year.
- It is an aid to succession planning.
- It identifies areas where their personal contribution could be enhanced.
- It is 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. Leaving this judgement to an annual meeting is an ineffective mechanism. It is likely to be backward looking and will not address issues as they arise or prepare the board for the future, instead delivering a response to outcomes too late to vary.

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 that 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. No one should join a board anticipating that they will give anything less than their best.

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. A board of eminent individuals does not guarantee collective efficacy.

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.

Boards 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.

Board self-review – how often and how deep?

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.

A questionnaire survey on its own, however, has limitations. Ticking the boxes can be carried out in a mechanical way with little thought given to the responses. When an organisation's budget allows, the independent third party should conduct face-to-face or via-the-telephone interviews with each director and the CEO. The survey data will form the basis for the follow-up interview questions. Much deeper feedback is gathered from these interviews.

Such a deep-level formal review might be carried out once every two or three years with a less formal 'check-up' conducted in the in-between years. This might focus on the development goals established for the board and individual directors with fine-tuning and sign-offs signalling improvements and work in progress. In this way, the board goes in deeply on a regular cycle and supplements this with shallower, less formal reviews. The formal review then does not become viewed as a mechanical exercise to be 'tossed off' as routine or repetitive.

Whatever cycle the board chooses should be scheduled into its ongoing work plan so the discipline of board and director self-assessment is as much a part of the organisation's overall quality management as annual staff performance management systems and processes.

Peer and self–feedback and assessment

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. Assessment of the chair by peers is also increasingly common.

Sport New Zealand online governance evaluation system

The revised online governance assessment system is now available at www.sportnz.org.nz/governance in these modules: whole of board, individual director, chair and management's view of the board. The system also has short form and customisation functions for follow-up surveys or feedback from targeted groups.

To get full value from the system, the use of a third party expert in governance is recommended to discuss the results with the board and help create a development plan.

Policy-based evaluation

Evaluation should be based on the board's own *prior* agreements about its operating practices and values (Step 2). This is the same principle the board applies to evaluating its chief executive. While desired performance standards should be agreed before any assessment, many boards that initiate a review before these have been set find it satisfactory in the interim to rely on best practice standards.

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, a 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.

Included in the Governance Process policies in the online sample board charter are a board and board member performance assessment and professional development policy. This requires the board to establish and document its annual cost of governance.

Questions

Board performance evaluation

- Does the board set standards for its own performance?
- Have the board's expectations for individual director performance been documented and made available to all directors?
- 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 his/her 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?

Online resources @ www.sportnz.org.nz/governance

- Sport New Zealand governance assessment tool: www.sportnz.org.nz/governance. An online tool providing assessments for whole of board, directors and the chair
- Board charter and policies including board assessment and development policies

References and further information

Charan, R 2009, *Owning Up: The 14 Questions Every Board Member Needs To Ask*, Jossey-Bass Publishers, San Francisco.

Conger, J A, Finegold, D & Lawler, E E 1998, Appraising Board Room Performance, *Harvard Business Review*, January-February, 136-148.

Garratt, B 2003, *Thin on Top: Why Corporate Governance Matters and How to Measure and Improve Board Performance*, Nicholas Brealey, London.

Hanford, P 1995, Developing Director and Executive Competencies in Strategic Thinking, in B Garrat (Ed.) *Developing Strategic Thought: Rediscovering the Art of Direction-Giving*, McGraw-Hill Book Company, London.

Kilmister, T & Nahkies, G 2004, Putting the Board to the 10 Minute Test, *Good Governance,* No. 39.

* The articles from the publication *Good Governance* referred to throughout this document are available in the online resources.

STEP 9: PROVIDE PURPOSEFUL DIRECTOR INDUCTION

STEP 9: PROVIDE PURPOSEFUL DIRECTOR INDUCTION

Even experienced and competent directors benefit from 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 new members 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.

A sample due diligence checklist is included in the online resources.

Effective induction processes

The board manual

The starting point for director induction is the development of a Director Induction policy.

A sample Director Induction policy is included as part of the board charter in the online resources.

Having such a policy will help with induction. The policy should ensure new directors have access to key information about the organisation, its constitution or trust deed, its work, its policies and procedures, and its strategic plan. Some boards develop a stand-alone manual containing these key documents. This provides a reference not only for new board members but for all directors 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. 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;

- most recent annual report;
- a glossary of definitions of terms and acronyms used;
- 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 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.

Board development workshops

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.

Conflicts of interest

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.

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

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 when 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.

An example of a simple conflict of interest policy can be found in the online resources as part of the sample board charter and policies.

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.

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.

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?

Online resources @ www.sportnz.org.nz/governance

- Due diligence check list
- Board charter and policies including: director induction and conflict of interest

References and further information

Kilmister, T & Nahkies, G,

Harnessing the New Director's Involvement from Day One, *Good Governance*, No. 15, 2000a.

Stack Your Board with Talent, *Good Governance*, No. 17, 2000b.

Getting the Best from Referees, *Good Governance,* No. 65, 2008a.

Dealing to Board Meeting Time Wasters, *Good Governance*, No. 64, 2008b.

* The articles from the publication *Good Governance* referred to throughout this document are available in the online resources.

FURTHER RESOURCES

FURTHER RESOURCES

In addition to the listings at the end of each section, the following books, periodicals and websites are recommended starting points for anyone wishing to study governance in more depth.

Books

Carver, John and Mayhew, Miriam. Reinventing Your Board.

Jossey-Bass Publishers, San Francisco, 1997. ISBN 0-7879-0911-4
A practical, step-by-step guide to implementing John Carver's policy governance model.

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

Jossey-Bass Publishers, San Francisco, 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.

HarperCollins, New York, 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.

BoardSource, Washington, 2006.
This resource provides more than 240 downloadable sample policies, job descriptions, committee charters, codes of ethics, board member agreements, mission and vision statements collected from a wide variety of US not-for-profit organisations. The user's guide provides a basic overview for each of the policies.

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.

2nd ed. BoardSource, Washington DC, 2009.
Very popular book explores what the author has specified as the ten core areas of board responsibility including determining mission and purpose, and ensuring effective planning. It has a US focus.

Periodicals

Board Café

This monthly electronic newsletter from US-based Compass Point is available free. It generally features a main article on a topic of practical interest to not-for-profit boards.
http://www.blueavocado.org/

Board Leadership

Edited by John Carver, this US-oriented bimonthly magazine focuses on the implementation of Carver's Policy Governance model. Subscription details are available from Jossey-Bass Publishers, San Francisco, or the Carver website (see over). www.carvergovernance.com

Boardroom

Monthly periodical from the Institute of Directors. Available with membership to the Institute. Some material is available on their site www.iod.org.nz

BoardSource

Monthly e-letter from US-based organisation focused on not-for-profit board development (see below). Available on subscription. http://www.boardsource.org/

BoardWorks

Published by BoardWorks International, this bimonthly electronic newsletter 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 back issues and to subscribe go to www.boardworksinternational.com

The Good Governance document is no longer published but relevant archive copies have kindly been provided by BoardWorks and can be accessed at www.sportnz.org.nz/governance

Websites

Appointbetterboards.co.nz

An online system connecting boards and directors that also provides a candidate management system.

Focused on the non-profit, privately owned business and sporting sector. Available to national and regional sport organisations at no charge. www.appointbetterboards.co.nz/

BoardSource

www.boardsource.org

Although US focused, this site has much to offer. Some material is public. Annual membership is $US99, which gives subscribers access to a large repository of resources. 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

BoardWorks International has worked closely with Sport New Zealand over the past ten years and has in-depth sector experience both here and in Australia. This site includes a range of material for those interested in boardroom effectiveness.

CompassPoint

www.compasspoint.org

A good site for anyone interested in the governance of not-for-profit organisations. Compass Point is a US not-for-profit service organisation offering a full range of training, conferences and resources.

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 substantial 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.

Sport New Zealand resources

www.sportnz.org.nz/governance

People Management Toolkit

Risk Management of Events

Strategic and Business Planning

Creating a Stakeholder Communications Plan

Online assessment tools:

- Governance assessment
  - Whole of board
  - Individual director
  - Chairman
  - Senior team's view of the board
  - Custom assessments
- Stakeholder survey tool
- Risk management tool

Springboard

An organisation dedicated to encouraging and developing the next generation of New Zealand's directors and trustees. Join their mailing list at www.springboardnz.org/ for information on events, training and resources.

QUICK REFERENCE GUIDES

STEP 1:
GET THE RIGHT PEOPLE ON BOARD

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 '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 an organisation's performance.

No structure is perfect and each organisation should consider what its unique challenges are and ensure its governance structure supports effective governance and leadership.

The critical issue is to ensure 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.

Independent directors

Many sports organisations now have a number of independent, directly appointed directors. This increases the depth and diversity of talent around the table. It also attracts people who may not wish to go through the organisation's electoral processes.

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 its 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.

GETTING THE RIGHT PEOPLE 'ON BOARD'

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.

KEY GOVERNANCE SKILLS

- *Strategic thinking*
- *Financial management*
- *Stakeholder-centric focus*
- *Knowledge of business*
- *Commitment*
- *Interpersonal skills*
- *Commitment to teamwork*
- *High standard of ethics*
- *Independence of thought*
- *Perseverance*
- *Sense of humour*

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.

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).

   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 three to five years.
3. Create a 'needs matrix' (Month 2/3).

   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 (Month 3).

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.

There is a critical need to attract board members who can stand back from the organisation and exercise a degree of detachment and objectivity.

Phase Two: Recruitment

5. Identify suitable candidates (Month 3/4).
6. Shortlisting of potential directors (Month 4).
7. Final selection (Month 5).
8. Appointment and orientation (Month 5).

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, now rather than later that someone makes it clear 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.

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.

STEP 2:
DEFINE AND AGREE THE BOARD'S ROLE

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.

Boards in all sectors – private, public and not-for-profit – develop and use a board charter as the basis for defining their governance principles and practices.

Governance is...

Servant Leadership – described as "…an insistent force…that obliges the institution to move toward distinction as servant".

Not 'Management' – to see the organisation is well managed without doing the managing itself.

Accountability to the Organisation – not to individual stakeholders.

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

The key tasks of the board are:

- defining the organisation's purpose, direction and priorities (Step 2);
- developing a governance policy 'umbrella' (Step 2);
- specifying key outcomes and approving the availability of resources (Step 4);
- appointing, supporting, evaluating and rewarding the chief executive (Step 3);
- establishing a framework for assessing risk (Step 6);
- regularly scanning the environment beyond the organisation (Step 6);
- gaining '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 policies (Step 6);
- setting standards for and evaluating the board's performance (Step 8); and
- ensuring there is appropriate succession planning (Step 1).

Governing structures and the legal and accountability framework

A variety of structures can provide good governance but they all have the same key principles:

- 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.
- Board members have 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

Many organisations rely on their constitutions for guidance on governance. This is a starting point but does not constitute governance policy.

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

It is generally accepted that the role of any governing board is to determine and monitor policy. It is the job of management to implement that policy.

The board shouldn't adopt or approve operational policies.

THINGS THE CHAIR SHOULD KNOW

- The board's policies and delegations
- Standard meeting rules
- How to get the best out of the boardroom team
- Their own strengths and weaknesses
- Agenda detail and desired meeting outcomes
- How to deal with conflicting views
- When to close off a discussion
- How to handle maverick directors
- How to guide and develop the CE

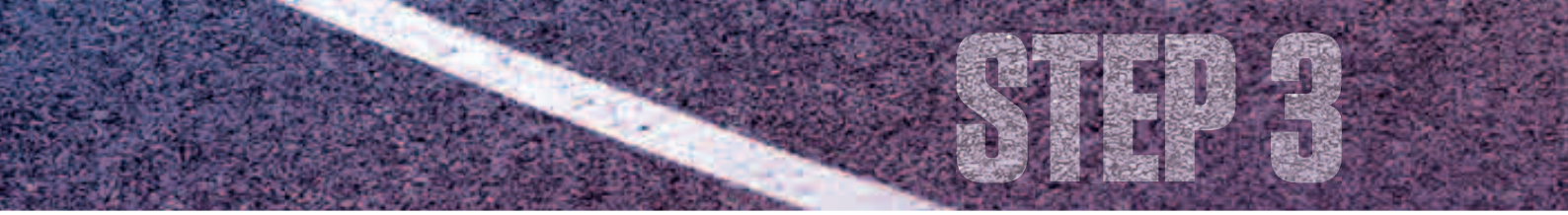
THE FOUR AREAS OF POLICY BASED ON THE WORK OF GOVERNANCE THEORIST JOHN CARVER:

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 the outcomes to be achieved.*



STEP 3:
EMPLOY AND SUPPORT A CHIEF EXECUTIVE

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.

Ensure the board really wants a CE and is prepared to genuinely relinquish operational control.

Finding the right CE

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 shortlisting

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 shortlist for consideration by a board subcommittee.

Full board consideration

The full board meets the leading candidates and makes the final decision.

Induction

The new CE should be well briefed and prepared via a formal induction process.

RELATIONSHIP WITH THE CHIEF EXECUTIVE

It is important that the board is in agreement about what sort of relationship it wants with the chief executive.

For this to be successful:

- *the role needs to be clearly defined;*
- *mutual expectations should be explicit and realistic;*
- *the CE's role at the board table should be understood;*
- *the board should be kept apprised of all risks faced by the organisation; and*
- *delegations should be recorded and adhered to.*

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 the board should formally record the extent of its delegation to the chief executive.

The contemporary approach to the definition of the CE's delegation is via the limitations approach.

This requires the board to define what must be achieved (ends, outcomes, results) and then to 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 specific categories in the delegation such as finance, marketing, public relations, membership, etc. should be overarching statements that set the wider boundaries of the delegation. These might include that the CE must:

- not breach any statute, regulation bylaw;
- not act in an unethical, unprofessional or imprudent manner; and
- act in accordance with normal business practices and standards.

Whichever 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.

Relationship with the chair

It is important that the chair and the chief executive have an effective working relationship but this should not be at the expense of the wider board-chief executive relationship.

Preferably this relationship should be documented, setting out its purpose and limitations.

EVALUATING THE CHIEF EXECUTIVE'S PERFORMANCE

The final responsibility for the performance assessment belongs with the board as a whole. If the purpose of the process 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 to succeed.

- The board should clearly express the desired and unambiguous results for the year and nominate priorities.
- Continuous informal feedback is best, with an end-of-year 'wrap -up' discussion.
- Staff and stakeholders can provide useful feedback. Consider the use of 360 degree surveys.

STEP 4:
PROVIDE STRATEGIC LEADERSHIP

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 win the commitment and confidence of key stakeholders;
- a basis for effective governance by keeping 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;

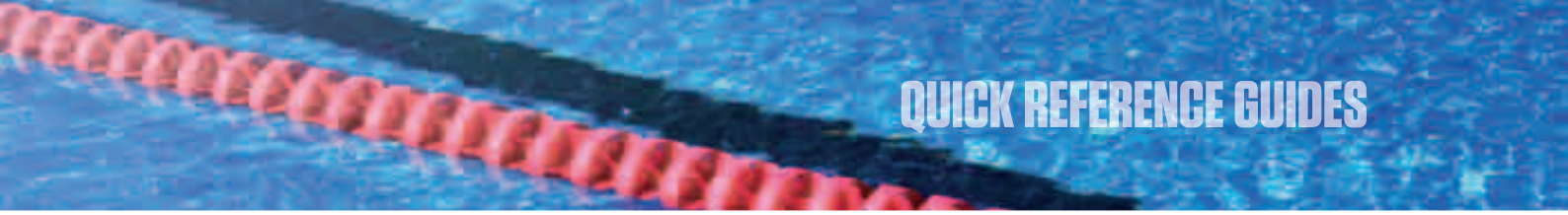
The board, in conjunction with the chief executive and senior staff, should regularly address such questions as:

- 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 help children under the age of 12 to learn to swim."

BUT: "All children aged 12 will be able to swim 200 metres."



Operational planning

The operational plan is the task of the chief executive. Boards should be cautious about 'signing off' this plan. It then becomes the board's document rather than that of the chief executive.

The chief executive is responsible for the delivery of the strategic Key Result Areas, not for 'doing' the things laid out in the operations plan. Failure to understand this will encourage the chief executive to report on activity rather than progress towards outcomes.

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 established. Those the board considers its *primarily* accountable to should attract the most attention.

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 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 judgement calls, and 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 formally documented in policy. This creates accountability and an explicit framework for monitoring performance.

THE STRUCTURE OF THE BOARD'S STATEMENT OF 'STRATEGIC INTENT'

The following framework is consistent with commonly accepted definitions of key terms.

1. ***VISION statement – an inspirational vision of an ideal future.***
2. ***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.***
6. ***PERFORMANCE MEASURES – measurements or milestones that the board must monitor to be sure about achieving key otcomes.***
7. ***RESOURCE ALLOCATION – resources should be allocated for each of the key results.***

STEP 5:
MAKE BOARD MEETINGS COUNT

Review the structure and content of the board meeting

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

Board meetings

Boards shouldn't try to steer the organisation by 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 should aim 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 forum, not a management one.

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 the 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;
- 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:

- 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;
- be clear about the key matters the board must address during the meeting;
- 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;
- 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 his/her job.

The board develops a policy that makes it clear to the chief executive what should be reported.

Board discussion is about governance issues not management matters; therefore the chief executive's role is to be the board's primary consultant.

Committees

Two common and useful committees that help a board do its work are:

- audit and risk management; and
- board membership and succession.

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.

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

STEP 6:
STAY ON TOP OF THE GOVERNANCE ROLE

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 – leading to lost time, staff confusion, inefficiency and an adversarial board-chief executive relationship.

Monitoring should focus on outcomes or results, rather than how the outcomes are 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 primarily be used to create the future, not 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; 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.

COMMON ERRORS IN CREATING PERFORMANCE AGREEMENTS:

1. Reliance on feelings. Use demonstrated evidence not emotions.
2. Misuse of adjectives. Words like 'appropriate' and 'excellent' are imprecise.
3. Misuse of verbs like 'promote', 'coordinate', 'facilitate', etc., which directs attention to the action instead of the intended outcome.
4. Comparative words like 'increase', 'improve', 'more', etc., which need a fixed reference point.
5. A failure to be exact.
6. An unreasonable expectation, e.g. "ensure 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
- redefine 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 (see pp 123) 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.

STEP 7:
DEVELOP THE WORK PLAN

Develop the work plan

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 them to chance or in the hands of the chief executive.

Boards in both 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 of its significant events and duties to be attended to in the coming the 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;
- designated dialogue sessions 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.

This should include dates for meetings and other significant events specific to the organisation.

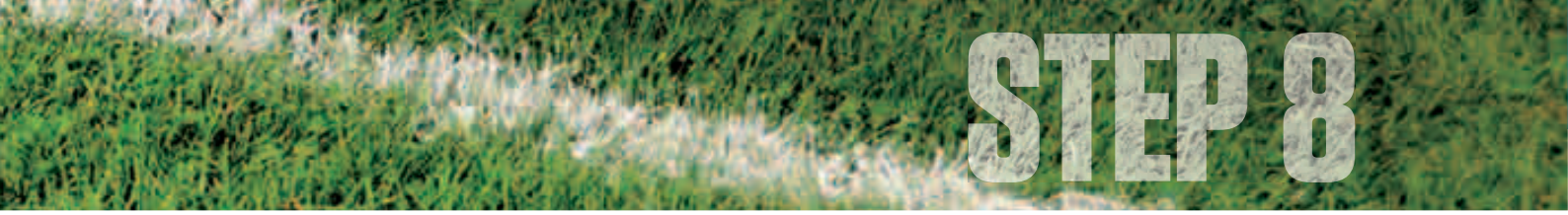
The annual agenda also ensures the board controls its own business and that it is committed to addressing matters that are essential for effective governance.

Scheduling ahead of time doesn't prevent including matters on a month-by-month, as-required basis.

It is suggested that during the year the board should schedule an in-depth discussion against each of the Ends policies so that every Ends policy is examined by the board at least once in the year and subjected to a variety of strategic thinking and analysis processes. This serves as an in-depth analysis of the CE's achievements and a strengthening of board members' knowledge about the Ends policies of the organisation.

Annual Board Work Plan

January	February	March
	3/2 Audit & Risk Committee **10/2** Board meeting	**30/3** Board meeting Quarterly policy review Annual governance review (chair this year) Governance development plan update
April	**May**	**June**
20/4 Annual strategic review (full day)	**8/5** CE Performance Review Committee **10/5** Audit & Risk Committee **20/5** Board meeting Annual budget	**30/6** Board meeting Six-monthly CE review Quarterly policy review
July	**August**	**September**
12 & 13/7 National championships	**3/8** Audit & Risk Committee **10/8** Board meeting Year-end strategic and financial report Quarterly policy review	**20/9** Board meeting **20/9** AGM
October	**November**	**December**
10/10 Board member induction day **30/10** Board meeting Annual stakeholder plan review	**20/11** CE Performance Review Committee **25/11** Audit & Risk Committee	**5/12** Board meeting Six-monthly CE review Quarterly policy review



STEP 8:
REGULARLY REVIEW THE BOARD'S PERFORMANCE

The board should set standards for its own performance

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

Self-assessment helps:

- identify board-wide performance improvements;
- aid succession planning;
- 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.

- 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 2). 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.

Sport New Zealand online governance evaluation system

The revised online governance assessment system is now available at www.sportnz.org.nz/governance in these modules: whole of board, individual director and chair. The system also has short form and customisation functions for follow-up surveys or feedback from targeted groups.

STEP 9:
PROVIDE PURPOSEFUL DIRECTOR INDUCTION

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 new members 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;
- most recent annual report;
- 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 chairman 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 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.

BOARD DEVELOPMENT WORKSHOP

Board development workshops are an excellent 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.

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. He/she might be a current board member or an appropriate third party with expertise.

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 directorships to directly benefit themselves, their families or others with whom they are closely associated.

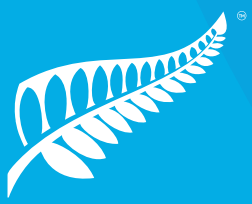
While conflicts of interest are often unavoidable, it is usually the way they are handled, rather than their existence, that creates difficulties.

Each board should have a Conflicts 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 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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