Nine Steps to Effective Governance

BUILDING HIGH PERFORMING ORGANISATIONS

FOURTH EDITION 2021

SPORT NEW ZEALAND IHI AOTEAROA

Te Kāwanatanga o Aotearoa
New Zealand Government

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Fourth edition credits

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This publication is intended to provide an overview of some of the key things that those involved in governance of play, active recreation and sport and other non-profit organisations should think about. It outlines some of the legal requirements, ethical considerations and best practice areas for consideration. It is not intended to be comprehensive and is not a substitute for legal advice. Links to more detailed resources are included in the listings at the end of each section and on page 144. Each board should seek direct legal advice to ensure it has a clear understanding of its legal obligations.

Chair's foreword

> **"There are decades where nothing happens; and there are weeks where decades happen."**
>
> **Vladimir Lenin**
>
> Russian revolutionary, politician and political theorist

As this updated edition of the *Nine Steps* goes to print, the world as we knew it has changed. COVID-19 has forced people, organisations, communities and countries to reflect on and rethink what is really important. The future is still unclear and there is a range of possibilities.

The pandemic has accelerated change already under way in some sectors – our ability to rapidly adopt and adapt to virtual technologies is the most notable example. The media, travel and retail sectors may remain permanently different. While the play, active recreation and sport sector has navigated the immediate threat in Aotearoa New Zealand, it is not immune to the need for reflection in order to seize new opportunities.

Working in an ever-changing world demands a lot from directors, many of whom are volunteers. It is reassuring that, in times of uncertainty, good governance fundamentals will stand the test of time – things such as a focus on purpose, clarity on the change we want to see in our communities, and evidence-based decision making. And it is even more important to spend time agreeing what not to do in order to free up capacity and resources for innovation and change, and then measuring and monitoring progress.

We hope you'll find the governance framework and principles in this publication as useful as they were when they were first released. The *Nine Steps* starts with purpose and the establishment of clear, measurable outcomes. Cementing in this way of thinking, and using the resources provided as part of this edition, will help you as you journey.

There will be challenging times ahead for directors in our sector but please know that we are here alongside you, available to support you and keen to work together. By collaborating and helping each other, we can lead the sector into a successful and different future.

He waka eke noa
A canoe which we are all in with no exception

Bill Moran

Chair
Sport New Zealand and
High Performance Sport New Zealand

Introduction to the fourth edition

Welcome to this updated edition of *Nine Steps to Effective Governance*. Originally created as a reference for the play, active recreation and sport sector in Aotearoa New Zealand, it has been well received and proven useful across the wider non-profit sector here and around the world. Although it remains primarily part of Sport New Zealand's ongoing capability programme, it is written with an eye on the broader application it enjoys.

Much has changed in the seven years since the last edition. Play, active recreation and sport and the non-profit sector in general face considerable challenges in a rapidly changing world. This edition responds to those challenges and their governance-level relevance. The principles laid out in the first edition 14 years ago are still a valid framework for any governance system. We note often in the book that the core task of a board is to create a prosperous future for the organisation. In this edition we discuss governance responses to recent events and offer some updated frameworks and tools to assist the board. The online version is more interactive, allowing quick access to the related resources and information.

Non-profit boards are grappling with their role in organisational culture, how to reflect the growing diversity within New Zealand and the need to work in partnership with others. These themes are picked up throughout this edition. The 2019 Sport NZ Integrity Review, Framework and resources are also important references for sector boards. We have added several stand-alone opinion pieces from people with expertise and perspective across the for-value sector. These cover subjects such as the rise of social enterprise, the perspective of the young leader, lessons from change programmes, and the view of the funder.

Since the last edition, Sport NZ has collaborated with the sector to develop and implement the Governance Mark standard. The Governance Framework on which it is based is derived from the principles in this book in a codified and simply understood structure.

It picks up on findings from a detailed assessment in 2014, which noted considerable governance progress but highlighted three core areas that remained in need of development. Those areas – strategic planning, clarity on the role of the board, and the understanding and use of policy – are highlighted in this edition.

It is fair to say that governance in any context has become more challenging. The majority of directors in our sector and the wider non-profit sector are not paid, yet grapple with very demanding roles and increasing accountability. The work can be stressful and frustrating, but this need not be the case. Everyone who offers to serve on a board does so with the intent of doing a good job. Attention to the key concepts in this resource will greatly assist in making the role a satisfying one.

There is no magic formula, and this does not set out to be a 'recipe book' for good governance – there are no perfect or universal prescriptions. Everyone's situation is different, but it is hoped that by applying the core principles that underlie this resource you can enjoy the work and make positive change in the world.

We encourage you to use this book and the associated suite of governance tools and resources offered by Sport NZ.

November 2021

> **"Play, active recreation and sport and the non-profit sector in general face considerable challenges in a rapidly changing world."**
>
> **Bill Moran**
>
> Chair
> Sport New Zealand and
> High Performance Sport New Zealand

Terminology

We use the word 'board' throughout to describe the governing group. Depending on the context, organisational size or legal status you may call it a committee, council, trust, or leadership team. We use board as it has a clear legal meaning under the Companies Act 1993, which is at present the best guide to the obligations of boards in a legally incorporated group.

For the same reason we use 'director' to indicate any member of that group. This may variously cover committee member, trustee, councillor and similar roles, but again the duties of a director under the Companies Act are the best guide we have for the non-profit world.

For the senior staff member, we use 'chief executive'. This may translate to the general manager, manager, or team leader, all indicating the most senior and responsible member of your organisation's paid staff.

The term 'sector' describes the play, active recreation and sport sector. We also occasionally refer to the broader non-profit or for-value sector. When this is the case we use the full description to make the distinction clear.

Contents

Concepts, challenges, structures and change

Concepts and challenges

> Service to others is the rent we pay for our space on earth.
>
> **David Dinkins**
>
> American politician, lawyer and author

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
- 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.

Principles of governance

Frameworks that provide guidance for the board are discussed throughout this book. Underlying any decision making is a deeper set of beliefs laid out as policy or values. The Governance Framework for Play, Active Recreation and Sport in New Zealand suggests there are five overarching principles that guide governance in most settings.

1. Be a layer of ownership down, not a layer of management up
2. Behave ethically; be accountable and transparent
3. Be clear about how you intend to use others' time and money
4. Create the future; you can't change the past
5. Respect people's time; make the job easy and satisfying.

These five principles are not intended to cover all aspects of the board's function, but they are a useful checklist to keep in mind.

The role of the board

Why are we in this room today? What is the value we will add to the organisation in the next few hours?

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
- financial security of the organisation
- 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
- 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.

What is the role of the board?

Across all sectors these are valid questions and ones that boards generally do not ask themselves often enough. It is said that the board needs to be an expert team rather than a team of experts. The many skills around the table need to be used constructively in partnership with management, and a smart chief executive will be looking to benefit from the collective intellect, wisdom and counsel of their board.

Time in the boardroom is precious and must be used on the right things, not on rehashing work that more correctly belongs with management. The board's time should be spent predominantly on things that are yet to happen.

One mechanism is for the board to come up with a list of key challenges it will address in the coming year. The list can be made public ahead of time in the annual work plan and reported against in the annual report. This directs the board to make clear its separate and distinct role and the work it intends to undertake in the coming year.

Brave boards can ask management how they see directors adding value and how that could be further developed.

The board should reflect regularly and ask if it is using its precious time to maximum effect. There are many suggestions throughout this book, but one of the simplest options is to end each meeting by asking, *"Did we do good work today and how could it be better?"*

Management must understand the nature of the board's role. Material it prepares and presents should support the governance function and not direct the board's attention toward revisiting management work.

It is important to check every so often that everyone has a consistent view about the board's role and that understanding is documented. The board chair and the chief executive should have a strong shared sense of their mutual roles and understand where the separation is and how to 'walk the line'.

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.

1. Acting in good faith in what they believe to be the best interests of the organisation and exercising the care, diligence and skill that a reasonable director would exercise in the same circumstances
2. Ensuring they have enough information to make an informed decision as a director
3. Relying on external advice in certain situations. Directors may rely on advice only if there is nothing that indicates they need to make further inquiries. In the event of legal action, 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 have relied on that advice
4. Not exercising the powers conferred on them for purposes other than those for which they are conferred
5. Using their discretion as to how they shall act
6. Not placing themselves in a position where their personal interest or duties to another person are likely to conflict with their duties to the organisation, unless they have the informed consent of the organisation.

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.

Fiduciary responsibility is a key part of the director's role but alone it is insufficient to ensure satisfactory levels of performance. For that the board must look beyond its oversight role to its strategic role (see Step 4 page 82).

> **"...the primary value of [the] firm's directors to the company [is]...in asking questions that 'make us rethink our assumptions.' That...makes us look at issues we may have missed and think about alternatives."**
>
> **N R Narayana Murthy**
>
> Co-Founder Infosys Technologies Limited

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 non-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.

Changes in the legal and regulatory environment

Providing reassurance that the organisation is complying with law and regulation is a key part of the director's role. Beyond the purely legislative, boards have become keenly aware of the focus given to a broader range of issues in organisational culture and 'beyond the bottom line' measures. In a sporting context the 2019 Sport New Zealand Sport Integrity Review resulted in far-reaching recommendations relating to culture, anti-doping, anti-match fixing and anti-corruption.

The following summarises current changes in the legal and regulatory environment, with some explored in more detail in other sections. They are provided for information and in every case obtaining more detailed advice applicable to a given circumstance is recommended.

Health and safety

The Health and Safety at Work Act 2015 introduced specific obligations on directors to ensure that the organisation complies with its obligations (see Step 4 page 92).

Anti-doping

Although the relevant legislation is not new (Sports Anti-Doping Act 2006), there is heightened focus on the issue as part of the wider concerns around the integrity of sport. All national sport organisations (NSOs) are required to have, at the constitutional level, a commitment to anti-doping.

Match fixing

In 2014 section 240A was inserted into the Crimes Act 1961 to clarify that match fixing is a form of deception. This amendment to the Crimes Act ensures that anyone who obtains a benefit or causes a loss by engaging in match fixing will be liable to a maximum penalty of seven years' imprisonment. Again, there is an imperative to have the commitment recognised at the constitutional level and ensure the relevant policies are in place, understood and adhered to.

Children's Act 2014

The Act places an obligation on specified state-funded employers to ensure the wellbeing of children and to have a process for safety checking those who work in regular contact with young people. Sport NZ's Safe Sport for Children guide outlines a good practice approach.

The safety checking regulations apply to state services (including Sport NZ), and individuals or organisations that receive state service funding to provide "regulated services" to children.

Recipients who receive public sector funding (e.g. from Sport NZ) are subject to the regulations requiring all paid people who work with children to be safety checked, and to have these safety checks updated every three years. The safety checking regulations don't apply to volunteers, unless the volunteering is part of an educational or vocational training course.

"Regulated services" are set out in Schedule 1 of the Act. Regulated services which may be relevant to sports bodies include:

- *"services provided at community facilities, including (but not limited to) sports and recreation centres, libraries, swimming pools, galleries, and community centres"*
- *"education services, including (but not limited to) learn-to-swim programmes and digital literacy programmes"*
- *"services provided in public environments, including (but not limited to) surf and beach patrols, skate park guardians, and road safety co-ordinators".*

Registered charities

It is also common for sports bodies that have charitable purposes to register as a charity under the Charities Act. The Charities Act recognises that the promotion of amateur sport may be a charitable purpose if it meets one of the tests of charitable purpose under the Act, for example, if the sporting organisation advances education or has purposes that provide other benefits to the community. It is important to note that sport in New Zealand is deemed to be charitable only if it meets one of the tests in the Act.

Recent rulings by the Charities Registration Board come from a view that some organisations, at both the constitutional and operational levels, have a predominant focus on the high performance area. The Charities Registration Board decision related to Swimming New Zealand is useful reading.

Incorporated Societies Act 1908

At the time of publication, the proposed update to this very old piece of legislation was still awaiting its second reading. It contains considerable change. Any organisation incorporated under this Act that is considering any constitutional amendment should keep the likely changes in mind (see page 14).

Trusts Act

The Trusts Act 2019 has replaced the Trustee Act 1956. Charitable trusts are captured by the Act, and charitable trustees will largely be required to comply with the requirements set out in the Act, including the mandatory and default trustee duties, unless the default duties are modified by the trust's trust deed.

The Trusts Act will apply to all family trusts, estates and charitable trusts, including those created before the Act takes effect. Charitable trustees will be required to comply with the trustee duties set out in the Act (except the requirement to disclose specified information to beneficiaries).

Public benefit reporting standards

Reporting required by charitable entities is outlined in standards set by the External Reporting Board (XRB). Charitable trusts with a turnover of under $2 million must already report under the new standard (PBE FRS 48) and the remainder will join them for reporting periods beginning in or after January 2021. The standard requires reporting on non-financial performance focusing on benefit delivered to the community as a charitable entity. This reporting will be audited along with the financial information.

Culture

The board owns, models and maintains oversight of organisational culture. Much of this is reflected in employment and workplace safety regulation. Increasingly oversight of culture is being written into governance codes (see page 36).

Beyond the bottom line

Organisations of all forms are being held to account for their broad impact on and contribution to society. Although not yet all enshrined in compliance regulation, issues such as environment, supply chain, diversity, and investment policies are examples of increasingly live issues and ones that boards need to be aware of. They are now common in annual reports across many types of organisations.

The concept of 'social licence' is gaining momentum. It states that any organisation requires a licence to operate granted by the community it impacts. That cannot be purchased as it is based on legitimacy, trust and consent as determined by that community.

The board's breadth of accountability continues to expand, and a planned cycle of oversight in key areas should feature in the annual work plan.

Changes to the Incorporated Societies Act

At the time of publication, the revised Act has not yet progressed into law. However, the draft Bill indicates that the description of directors' duties will be more detailed.

"It is clear from submissions and other [Law] Commission stakeholder engagement that there are widespread contraventions of officers' duties, much of it due to ignorance of the law. Including a clear set of duties in the new IS Act will reduce the risks and provide a clear framework for resolving disputes in relation to alleged contraventions."

Part 3 of the draft Bill outlines officers' duties that are much like the requirements in the Companies Act to act in good faith, exercise power for a proper purpose, show a duty of care, not engage in reckless trading, and avoid conflicts of interest.

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 usually contains similar exclusions.

Each board needs to 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.

Governance Framework for Play, Active Recreation and Sport in New Zealand

Launched in 2015 as the Governance Framework for the New Zealand Sport and Recreation Sector, the Framework is based on the guidance laid out in *Nine Steps to Effective Governance.* The Framework was developed in consultation with sector practitioners and strongly references the 2014 benchmark 10-year study of governance development in the sector.

Expert Panel:

Jan Dawson, Peter Fitzsimmons, Raewyn Lovett, Sir John Wells

Sector Panel:

Clare Kearney, Raewyn Kirkman, Arthur Klap, Selwyn Maister, Annette Purvis

The Framework on page 16 captures and shows at a glance the key elements of good practice governance systems and processes. The Governance Mark is based directly on the Framework.

All the items referred to in the Documented Elements section of the Framework have good practice templates and guidance available within Sport NZ resources. Links to these can be found in the online version of this book at www.sportnz.org.nz/governance.

Governance Framework

Clarity and cohesion	People	Inside the boardroom	Integrity and accountability
Key framework elements			
Clear organisational purpose Outcomes-based strategic framework Agreed and ongoing process of strategy development, evaluation and refinement Board operates with a predominantly future focus This constitution/ trust deed aids good governance	Open recruitment practices attract the best people Structured tenure and rotation Mix of elected and appointed directors Roles, obligations and expectations understood and agreed Directors are inducted, supported and offered development Gender balance of 40% minimum women	Meetings are based on dialogue and constructive inquiry Board papers are set in a strategic context and relevant to the governance conversation Clear and agreed processes for making significant decisions Relationship with Chief Executive is explicit, documented and understood The Chief Executive is the board's principal advisor The board views itself as a learning entity The board has an agreed view on the standard it should operate at and how it adds value to the organisation	Directors' interests and potential conflicts are addressed in a transparent manner There is a clear code for director behaviour which is adhered to Primary accountability is to the organisation Board performance and organisational achievement are fully reported to stakeholders The board has ongoing oversight of organisational culture Organisational values are made public The full range of ethics policies is in place The board has oversight of organisational risk
Documented elements			
Statement of strategic direction Good practice strategic plan Operational plan linked to the strategic plan Budget showing linkage between strategy and resource allocation Constitution or trust deed is up to date and in plain English	Terms of reference for board appointment panel Skills matrix Role descriptions and letters of appointment Outline of induction programme Detail of tenure arrangements and director rotation Development plan for the board	Board charter with planned cycle of policy review Terms of reference for governance committees Annual board work plan Delegation framework or schedule Chief Executive performance agreement and performance process Board papers demonstrating strategically focused agenda set by the chair	Obligations and duties laid out in the board charter Governance section in the annual report Public statement of organisational values Stakeholder communications plan Financial reporting is understood by everyone and tracks all relevant risks An updated risk report is presented at every meeting Board code of ethics/conduct A plan for board's ongoing oversight of organisational culture Clear, simple financial reporting easily understood by the whole board Documented commitment to board evaluation Policies covering all key ethical areas, both organisational and sport wide as applicable Business continuity plan Risk framework and reporting
Additional good practice			
Planned annual strategic retreat, independently facilitated	Recruitment material professionally reviewed Independent representation on appointment panels	Documented policy for when directors act as volunteers outside the boardroom ('wearing another hat') Mechanism for seeking clarification of board papers ahead of meetings Meeting review process	Register of applicable Acts and brief summary of relevant legal matters Meeting summary provided to key stakeholders Governance evaluation extends to individual directors, chair and management's perception of the board Audit and Risk Committee

Governance Framework Lite

One of the useful aspects of the Governance Framework is the ability to see all the key elements on one page. The 'Lite' version was developed for fully voluntary organisations or those with few staff. All organisations, no matter what size, have governance functions and clear responsibilities for directors/ committee members. The Governance Framework Lite sets out good practice principles clearly and simply. The associated resources address many of the same issues as the main framework but are focused on key points relevant to smaller organisations. There is no accreditation process based on the Lite Framework, but organisations are encouraged to use it as a good practice checklist.

Clarity and cohesion	People	At the leadership table	Integrity and accountability
Key elements			
Everyone agrees WHY the organisation exists Everyone understands WHAT we are trying to achieve this year and in the long term Everyone is confident HOW our effort and money are going into activities that will get us where we want to be long term The organisation's legal structure and documents are helping rather than holding us back	The best people available are sitting at the board table We have a good mix of fresh and experienced directors Everyone knows what their job is and how to do it well We have a good mix of elected people and people brought in for their expertise or independence Our board is refreshed on a planned basis	We agree that our meetings make good use of our time We make time for future thinking as well as day-to-day operational work We avoid arguments by agreeing on how we make decisions We have clear and agreed connections with the people we rely on to get things done (our paid or volunteer workforce)	Conflicts of interest are discussed and dealt with in a transparent way Our behaviour is always ethical and in the best interests of the organisation We comply with any relevant legislation We let people who have an interest in our success know what we are doing, and we check that everyone is happy with the work we do
Documents/Tools			
A strategy (1.1) that clarifies why we exist and what we hope to achieve An action plan (1.2) that clarifies what must be done, by who and by when A constitution or trust deed (1.3) A budget and regular reports (4.1) that show we are spending the most money in areas that will make the most difference and are making progress towards our targets	Role descriptions (2.2) for the board so we know what skills (2.3) we need on the team and what everyone is expected to do Information (2.2 & 2.4) for people new to specific roles e.g. key information or 'how to' guides Some simple recruitment tips (2.1)	A meeting agenda template (3.2) Quick guide to good meetings (3.1) An annual agenda (3.5) with time set aside to focus on the long term A risk register (3.6) An action register (3.4) Agreed 'rules of engagement' that clarify how the team will behave (2.1) Regular reports (3.1 & 4.1) that show if we are doing what we planned and if we are achieving the results we hoped for Delegations/policies (0.3) that connect to us to the people who do the work	A document that clarifies for everyone in the organisation how the team manages conflicts of interest (4.2) A list of legal acts (4.4) to be aware of and a summary of how these impact us A plan to talk to key people/ organisations on a regular basis (4.5)
Going a bit further – some more good practice			
Support from a mentor who can help us think strategically One-page statement of intent for use with stakeholders (1.1) Regular 'thinking sessions' when we talk about the future (0.2)	Documented induction programme (2.4) Self-assessment of our performance as a board (4.3)	Post-meeting review (3.1) Decision making (4.3)	Governance statement in the annual report (4.5)

Governance Mark for Play, Active Recreation and Sport in New Zealand

Organisations committed to a programme of development based on the Governance Framework can be assessed against a quality standard and seek the Governance Mark for the sector. The Mark is designed for organisations that have a level of governance/management separation. The process requires a strong commitment from the organisation and in most cases will involve significant change in sections of governance process or planning.

The Mark process requires an accredited assessor to work with the board on the assessment and subsequent development plan, and typically takes 12 to 24 months to work through. It is important to view the process not as one of audit but rather as a development framework for a committed board. Assessment needs to be completed every three years to maintain the Mark.

Organisations interested in undertaking the Governance Mark process should contact Sport NZ.

> **"The Governance Mark programme has enhanced our board governance processes and given confidence to our stakeholders that we are focused in the right place. I thoroughly recommend the Mark to others."**
>
> **Hetty Van Hale**
>
> Former Chair Badminton New Zealand

Governance 101

It is essential that there is a shared reality in the boardroom, that directors have a common set of understandings about the role and how to go about it.

The online learning system Governance 101 ensures that all directors will have the same base level of understanding and familiarity with the essential concepts that underlie the role. It takes only two to three hours to complete and can be taken in modules. No matter how experienced the person, it is well worth directors' committing the time to do this course. Heavy on video and voices from the sector, it is an easy and enjoyable process. As Chait et al[1] note, it is important to understand the level at which board dialogue needs to occur.

The programme is available at no cost on the Sporttutor platform: www.sporttutor.nz

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, with everyone expected to contribute to a wide range of circumstances and challenges related to the organisation. Non-profit organisations often start life on the back of a dedicated, sometimes crusading, individual who sees a cause or an unmet need that requires a champion, and a new 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 respond to certain opportunities, often led by a visionary individual with a small group of supporters.
2. A legal entity is formed to provide protection to those who invest time or money. In the case of non-profits, the fledgling entity can often then 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 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 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 early history of the organisation.

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

1 Chait, R P, W P Ryan and B E Taylor. *Governance as Leadership: Reframing the work of nonprofit boards.* Hoboken, NJ: John Wiley & Sons, 2005.

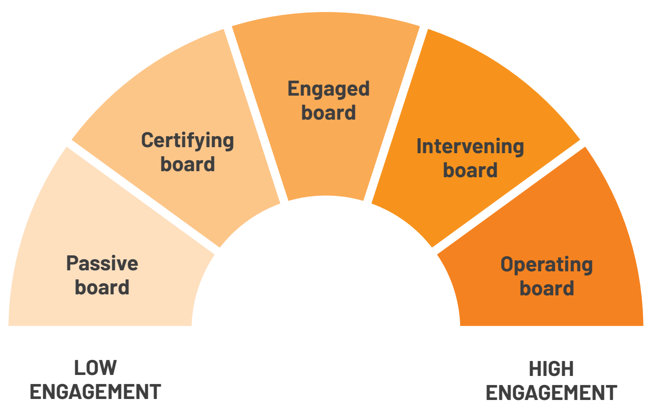
Models of board engagement

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[2] codified five levels of engagement.

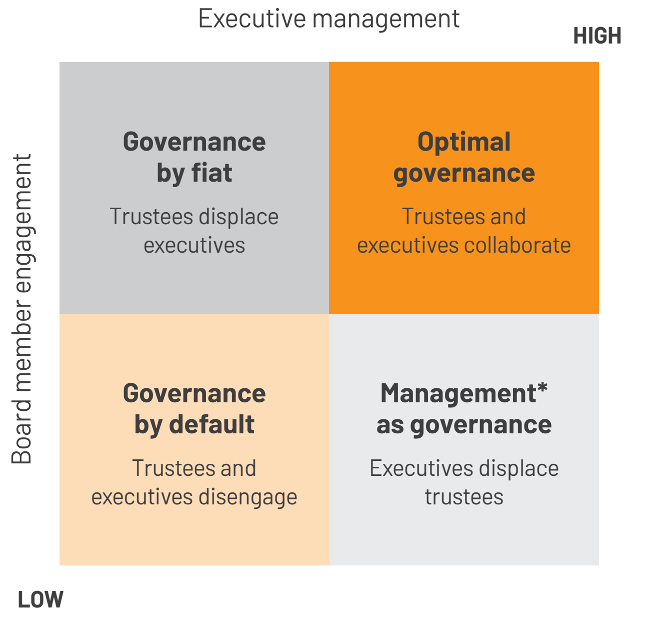
1. **The Passive Board** does little more than ratify management decisions and actions, with little accountability and low board member participation.
2. **The Certifying Board** typically emphasises credibility to stakeholders, has several outside directors, certifies that the business is correctly 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:



Four quadrants of engagement

In their book *Governance as Leadership*[3], Chait, Ryan and Taylor offer another framework for the level of engagement of the board.



**Chait et al use the term 'leadership' here. We have altered this to '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.

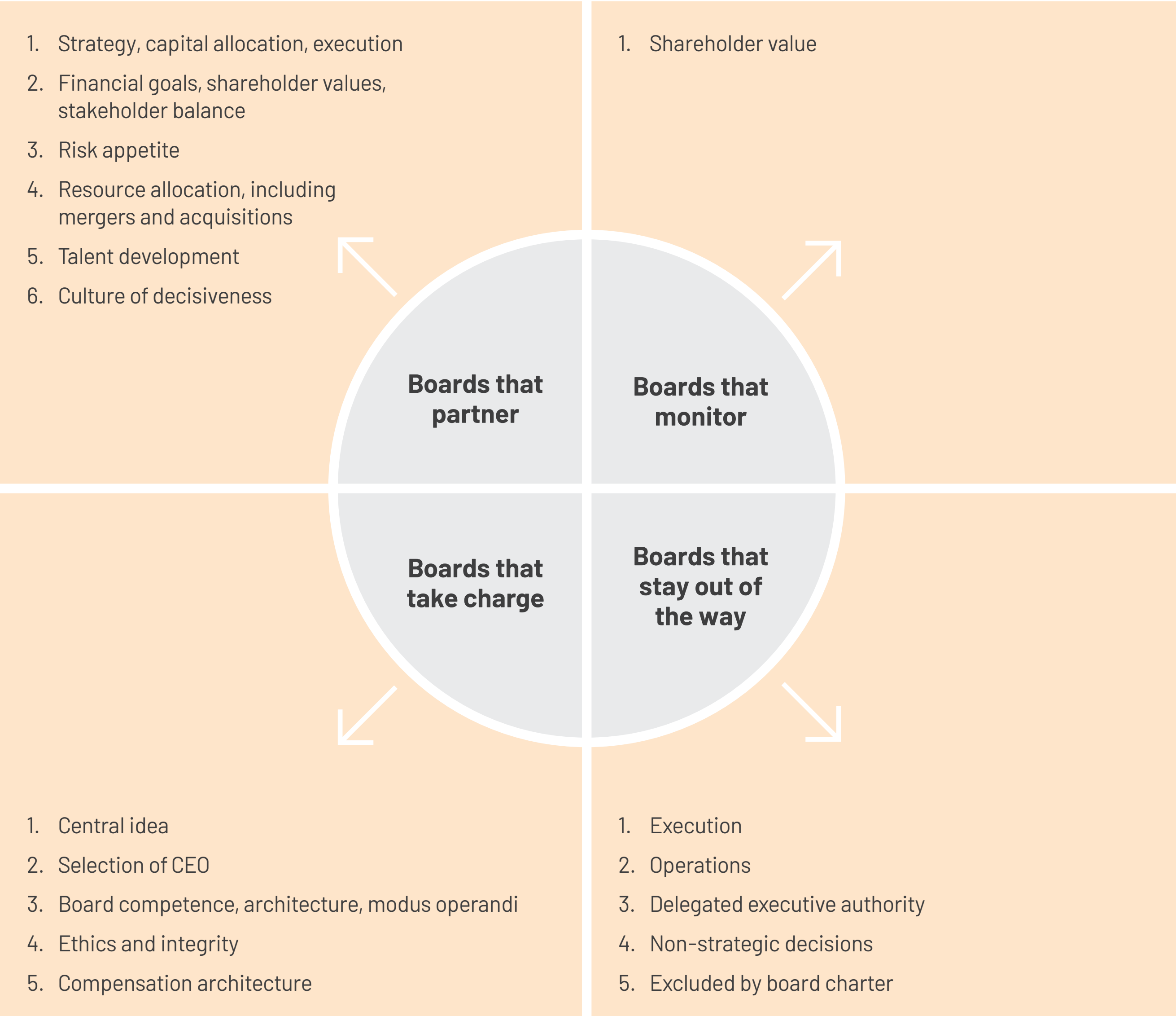
Conversely, when a board is dominated by its executives, board members will disengage from their role and risk management by designing organisational responses that fit their personal aspirations, skill sets and interests rather than the best interests of the organisation and its owners. When both executives 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 Nadler, D A. 'Building better boards'. *Harvard Business Review* 82, no. 5 (May 2004): 102-11, 152.
3 Chait, R P, W P Ryan and B E Taylor. *Governance as Leadership: Reframing the work of nonprofit boards.* Hoboken, NJ: John Wiley & Sons, 2005.

Staying out of the way

Governance writers Charan, Carey and Useem[4] have created a model that outlines board behaviour in four modes: partnering, monitoring, taking charge and staying out of the way.

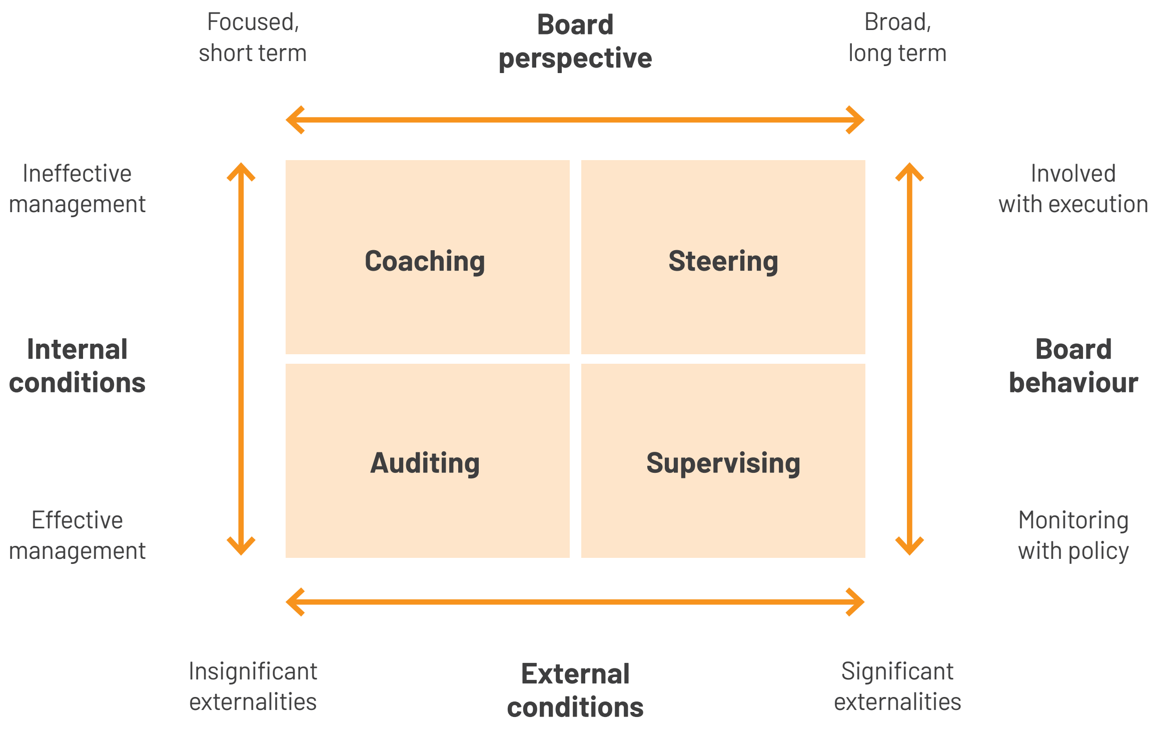


In their model the board is responsible for the central idea (similar to purpose), that is, how the enterprise creates value. It decides how it will work as a board, sets standards of integrity and ethics, employs the chief executive and designs the compensation framework. It is clear about the areas that are not normally its mandate. In partnership with management, the board creates strategy, allocates resource, agrees on levels of risk, and ensures the organisation is developing its people. The quadrants are of course never fully discrete or isolated from one another. The monitoring function, for instance, is part of the evaluation and learning loop that informs and adjusts strategy.

4 Charan, T, D Carey and M Useem. *Boards that Lead: When to take charge, when to partner, and when to stay out of the way.* Boston: Harvard Business Review Press, 2014.

Contingent governance

Another way to look at the emphasis boards adopt is found in Paul Strebel's model of 'contingent governance'[5], which adopts four core roles for a board – coaching, auditing, supervising and steering. As the term contingent indicates, the board's role at any given time is dependent on and responsive to changing circumstances.



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

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.

5 Strebel, P. 'The case for contingent governance'. *MIT Sloan Management Review* (Winter 2004). https://sloanreview.mit.edu/article/the-case-for-contingent-governance/

Partnership governance

Partnerships in the sector are becoming more common with the advent of 'sportsvilles', 'hub' facilities and other types of co-joint delivery.

A partnership may be defined simply as a collaborative venture between two or more organisations that pool resources in pursuit of common objectives. Partnerships can encompass a broad array of arrangements, from informal associations or networks to legal agreements or whole new entities.

Importantly, partnership does not imply equality within the group. A partnership inevitably involves power relationships, both individual and collective, and it is rarely balanced. A successful partnership openly acknowledges and values the different types of contribution and influence that each individual or organisation brings.

Partnership governance requires an approach that ensures the parties are aligned, clear about goals and working in an atmosphere of 'perceived fairness'. Partnerships that transfer the majority of an organisation's activities into a wider structure are very different from those that focus on a specific project. In the first case there are also consequences for the governance of the component organisations, who have effectively delegated their strategic accountability, and perhaps even some delivery and administrative functions, upwards to the broader structure.

> **"The ability to work in partnership is one of the defining characteristics of the successful non-profit organisation in the contemporary world."**
>
> **Leslie Crutchfield and Heather McLeod Grant**
>
> Co-authors of *Forces for Good*

Principles of partnership governance

Representation

The partnership must be legitimate in the eyes of stakeholders, which means ensuring that:

- everyone who needs to be at the table is at the table
- voices are listened to and the dialogue is genuine and respectful
- the group has a consensus orientation.

Vision and purpose

Clear understanding of the purpose and goals is needed, and the capacity to adapt as circumstances change, so that:

- there is a shared and clearly articulated vision of the desired outcome(s)
- each party knows how they will contribute to the achievement of the vision
- roles and responsibilities are clearly defined.

Performance

For the partnership to perform effectively, there must be:

- clarity on what constitutes success
- monitoring and public reporting of performance
- joint development of the performance reporting framework
- sufficient resources to build and maintain the partnership.

Accountability

Transparency and accountability are critical, including the accountability that partners have back to their organisations. This means that:

- the accountabilities are clear, agreed and documented
- there is an open, transparent and accountable relationship between the parties
- the accountability relationships of the parties to their respective organisations are recognised and respected.

Fairness

All parties must believe they receive sufficient value from the partnership.

Challenges

Partnerships are rarely smooth sailing. As in any leadership situation, there are positive behaviours and ones that detract from progress.

Leadership

Consistent with good practice governance, leaders speak with one voice promoting the vision. Conversely, a lack of leadership visibility or any tendency to subscribe to a culture of blame or mistrust will quickly erode the partnership. Circumstances will change and conflict will arise. Flexibility and honesty are vital. Taking decisions without consulting partners negates goodwill. The focus must remain on agreed goals and the solutions necessary to achieve them.

Letting go

Organisations that prioritise their own objectives over the partnership are corrosive. In coming together for common objectives, it is likely that some things must be 'let go' and these things need to be identified upfront, put on the table and resolved.

Processes

A common understanding on how decisions are made is essential. The best framework will be the outcomes intended to benefit the end user based on evidence of need. How that is measured will be agreed ahead of time and not varied on an ad hoc basis.

People

If there is a board or similar for the venture, it should be strongly focused on the success of the new entity or project. The challenge for emerging partnerships in the sector is to move away from 'representative' thought to the wellbeing of the new venture. It may be best to have a mix of people around the table, some with knowledge of the component parts and others who are independent and are concerned primarily about the new initiative.

Resource utilisation

Generally, partnerships are intended to use resources more efficiently. Strategy is about choice and several options will need to be carefully considered to land on the best model for a given situation. The cost of the new partnership entity can often be a vexed issue so that should be fully discussed and agreed. Given that this is a different approach, things will need to be 'let go' to ensure no duplication of effort or just doing the 'same old thing in a different colour'. This may impact people and their employment, so care is needed.

Governance in a Māori context

Jane Huria
Ngāi Tahu

Governance in a Māori context has its own distinctive characteristics, based on a Māori world view using te reo me ngā tikanga Māori. There are also elements that align with Tauiwi (non-Māori) governance models, including the need for leadership and a values-based approach, the requirement for legal and regulatory compliance, and good communication with stakeholders. Māori models, with their ongoing focus on the long-term, intergenerational guardianship and purpose-led approach, can provide useful insights into wider governance practice.

Background

Traditional Māori governance can include governance forms based on whānau, hapū, iwi. The foundations of these collectives are based on tikanga, whakapapa, whenua and whanaungatanga connections.

Tikanga: the customary system of values and practices

Whakapapa: all members of the group are related by blood

Whenua: members' affiliation to their lands

Whanaungatanga: members are bound together in a sense of kinship, working together within a collective unit.

Distinctive elements of governance in a Māori context

Governance is inextricably linked to Te Ao Māori

The key distinction between governance in Māori and other organisations is the context in which both exist. In a Māori context, governance is inextricably linked to Te Ao Māori (the Māori world view or perspective). This world view includes Te Reo Māori (the language), Tikanga Māori (customs and protocols) and Te Tiriti o Waitangi (the Treaty of Waitangi).

Successful interactions with governance in a Māori context therefore require an understanding of Te Ao Māori. Many people who interact with Māori directors and organisations do not have knowledge about the culture, having grown up in a universe which is parallel and largely unconnected; therefore having an understanding of and empathy for the kaupapa (way of doing things) is essential.

Te Ao Māori includes cultural norms which are important to understand, such as kaitiakitanga (long-term stewardship of taonga and people – preservation or conservation for future generations), manaakitanga (showing respect and uplifting the mana of all by kindness, generosity, hospitality, support), whakapapa (the importance of genealogy and whānau connections), and the understanding that people are part of the world rather than masters of it and that the environment comprises living elements (mauri).

Kaitiakitanga and a long-term view, for example, can result in a conservative, risk-averse approach by directors in a Māori context. Settlement funds may be channelled into passive investments such as bank deposits and managed funds. There may be little appetite or capacity for some to consider other options for more lucrative commercial returns with their attendant risks.

Along with a history of highly successful trade pre and post European settlement, there are commercially focused iwi and whānau and their businesses who have balanced conservatism with the need for solid returns for their people, and who have fought long, hard battles for redress settlement.

Alignment with other models of governance

Both Māori and Tauiwi governance operate from a values base

Although Te Ao Māori underpins a different world view, there are many similarities with other governance models. Both Māori and Tauiwi governance operate from a values base. Building sound relationships and good communications is very important for both, as is articulating a vision that captures people's hearts and minds and underpins actions.

In both worlds, the governing bodies are responsible for:

- setting of plans and accountabilities
- compliance with legislation and regulations
- compliance with the organisation's constitution, charter, contracts, and funding arrangements
- financial reporting and solvency
- risk governance
- health and safety
- non-financial performance reporting.

Some legislation and regulations specifically address iwi, for example, the Ngāi Tahu Claims Settlement Act, and local planning rules which support kaumatua and whānau housing.

Successful leaders everywhere take their people with them and are committed to achieving the aspirations of those they lead. They understand the ongoing need for consultation and the continued endorsement of those they lead. They understand that protracted consultation should not prevent effective decision making and that consultation may be a slower process but it generally results in more durable decisions.

Directors in Māori organisations are often elected and may concern themselves with social development as well as commercial and economic matters.

What can we learn from Māori models?

"He aha te mea nui o te ao. He tāngata, he tāngata, he tāngata."

"What is the most important thing in the world? It is people, it is people, it is people."

Best practice governance results in directors having to balance short- and long-term goals. A common example involves meeting shareholders' expectations for short-term returns on their investment, versus the directors' duty to act in the best interest of the company, which might mean no or limited dividend payments for a period of time.

This balance also applies in Māori governance; however, there is greater awareness about 'those who have come before', about a sense of being part of a continuum and about communicating with the 'owners'. The presence of tupuna (ancestors) and their histories, as well as world view concepts such as kaitiakitanga (stewardship) and intergenerational timeframes, supports longer-term decision making by directors. There is emphasis on an expectation of longevity – of a people, decisions and actions. This expectation is described well in the Ngāi Tahu whakataukī (proverb) *"Mō tātou, ā, mō kā uri ā muri ake nei" – "For us, and our children after us".*

Most Māori organisations exist to facilitate the advancement of their people, rather than existing in their own right for some other purpose, such as to deliver a financial shareholder return. A common whakataukī (proverb) is *"He aha te mea nui o te ao. He tāngata, he tāngata, he tāngata" – "What is the most important thing in the world? It is people, it is people, it is people".*

Māori directors have a strong commitment to the organisational kaupapa (a set of values, principles and plans which their people have agreed on as a foundation for board actions) and many contribute hours of unpaid service. Leaders often juggle multiple responsibilities and are much in demand.

What to get right when working with Māori communities

It is important to remember that communities are not homogenous

It is important to try to understand Te Ao Māori and what is valued by the community. It is also important to remember that communities are not homogeneous, either internally or with other communities – each has its own whenua, tikanga, history, protocols and perspectives.

Schemes and plans have failed because Tauiwi did not think in terms of partnership and mutual benefit, or take time to understand the world they were entering, discover why these potential partners existed, and their history, or consider: Who are the leaders and who are the people they lead? Who are the thought leaders or influencers? What do they think? What are their priorities? What is the best way to communicate with them?

There may be a responsibility or duty to consult with mana whenua (customary authority exercised by an iwi or hapū in an identified area). Little progress will be made with the mahi (work or activity) or consultation if it is not a priority for the people involved. There may also be a lack of interest or capacity to interact with that kaupapa, particularly as rūnanga and marae are largely run by volunteers.

Local culture prevails. Learn about basic protocols. Understand the purpose and practice for Pōwhiri (welcome on a Marae), Mihi Whakatau (shorter welcome generally not on a marae), Karakia (prayers), Waiata (song), opening and closing meetings. Listen, watch, and respond when invited.

What can go wrong?

Politeness shown may not mean that all is well

A lack of challenge may result from the low priority assigned to a particular matter or indicate that there has been ineffective communication with Māori directors. Developing a long-term and mutually beneficial partnership which results in understanding is likely to be more successful.

People need time to reflect on and discuss major initiatives. A programme of consultation about matters of significance will have longer-lasting results than a one-off session forcing a rushed or no decision.

Ensure your messages are pitched for your audience. As with most audiences, technical jargon and lengthy, complex details are not likely to hold attention and gain support.

Be aware of the differences between the corporate face of iwi and traditional leadership. Successful long-term decisions require that the leadership of both are aligned. Disagreements must be debated.

Confidentiality can be tricky when so many are involved in decision making so prior thought should be given if discussions are 'commercially sensitive'.

Jane Huria

Ko Maungatere te Maunga
Ko Rakahuri te Awa
Ko Takitimu te Waka
Ko Ngāi Tahu te Iwi
Ko Ngāi Tūāhuriri te Hapū
Ko Tuahiwi te Marae
Ko Jane Huria ahau

Awarded a CNZM for services to corporate governance, Jane Huria has 30 years' governance experience. She has been a board member of Sport NZ, served on the Sport NZ Māori Advisory Group and has consulted on and taught governance for many years in the sport sector and with Iwi. Jane has been a board member of Winter Games NZ and is currently on the Canterbury Cricket Trust board. She participates in governance and other activities at her marae at Tuahiwi.

Common governance challenges and issues

Trends in governance

There is an increasing focus on the role of boards worldwide and recent discussion has highlighted several high-profile issues.

Heightened accountability

Lack of oversight is one of the issues in the spotlight, and there is increasing pressure from investors, funders, sponsors, members and stakeholders for more transparency around all aspects of governance. Organisations are being asked to provide information about policies and actions relating to recruitment, evaluation and development as part of their governance reporting.

Scrutiny on organisational performance is heightening in the non-profit world. Funders are wanting to understand the nature of the change in the world an organisation proposes to make, how they will assess and report on it, their cost efficacy and why it should be their organisation rather than another that gets the funding.

Health and safety

Since the introduction of the new legislation in 2015, specific obligations have been placed on directors to ensure the required systems and processes are in place, adhered to and monitored (see page 92).

Culture

No issue has been more front and centre recently than culture, especially in the play, active recreation and sport sector. Boards can expect questioning on how well they understand their organisation's culture and how they intend to address issues now and into the future (see page 36).

Partnerships and collaborations

New Zealand has a surplus of delivery agents in the non-profit space and this means wasteful duplication of function and effort is apparent across the sector. One of the defining characteristics of successful organisations in the for-value world is the ability to work in partnership with others and to leverage funds. In the sector, too, hubs and collectives are emerging. These require a different approach to governance (see page 22).

Gender

The #MeToo movement has advanced the gender equality discussion. Sexual discrimination, harassment, and gender parity are intertwined, board-level issues. In Aotearoa New Zealand the government has given clear priority to elevating the role of women within sport. Starting at the top, if your board does not include a good number of the many talented women interested in governance service, it is likely investors and stakeholders will want to know why.

Diversity

Diversity in the wider sense remains a challenge in New Zealand boardrooms. We are close to the time when half of Auckland's population will be Māori, Pacific or Asian. Given the premise that a board, especially a community good one, should reflect the people it aims to represent, there is work to be done.

Diversity includes age, background, education and thought. Ticking one set of boxes but ending up with a table full of university-educated people aged 50 plus is not diversity.

Accountability beyond the bottom line

In the for-profit world major investors are increasingly demanding a long-term view emphasising social value, the environment and sustainable behaviours. Companies are embracing various models of accountability and reporting beyond the purely financial. The attitudes of the millennial generation both in workplace choice and in investment behaviour are strong drivers in this change.

The non-profit world has some catching up to do.

Technology

Privacy and cyber risk are issues of the day and directors are seeking to understand and mitigate these risks. Boards are also looking for people who understand the impact of technology on their businesses and can assist in leading digital strategy.

Electronic board packs

Many boards are now adopting electronic board papers. Used well, these make the director's life simpler but used poorly they become a dumping ground for irrelevant material.

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 absence of one or two board members from a meeting can result in a serious loss of input into decision making and board dialogue. Conversely, 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 timeframes – the chair may feel the need to 'poll' all opinions, which is time consuming and duplicates input. And with the trend towards remunerating board members of non-profit organisations, the cost of governance can get out of hand.

Board member tenure

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

Historically, constitutions with limited tenure for both the chair and board members contributed to this. Now, such turnover is more likely to indicate dysfunction within the boardroom and directors feeling they are unable to make a satisfying contribution.

The opposite issue has been more common in recent years in the sector, namely the retention of long-serving members who have become dead wood. Regardless of their past or even current contribution, a degree of institutionalisation and defensiveness sets in over time. A board that seems antiquated or lacks the levels of professionalism expected in other parts of the organisation has a credibility issue. Trusts with no limit to board members' tenure and no electoral process are particularly vulnerable to this problem.

Research indicates that organisations with too many long-serving directors will suffer a decline in performance. No individual is irreplaceable, and a board is made healthier by a regular influx of fresh thinking.

The stipulation in the Governance Mark process for fixed term tenure was challenged. Sport NZ undertook wide consultation on the issue, referred to recent research and produced a paper ('The Director Tenure Debate', available on the Sport NZ website). The evidence and feedback strongly supported a fixed period of tenure.

Of course, a balance is needed between those who have enough experience to provide institutional memory and continuity and those who bring fresh energy and new ideas. 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. This prevents too much loss of institutional knowledge or too long a break in the work programme to bring several new members up to speed.

Election/confirmation of the chair

The chair should be elected/confirmed by the board itself after the AGM. It may be useful to wait a meeting or two until the group has a sense of which of them is most suited to that leadership role. The chair should retain that position for as long as they have the board's confidence but reconfirmed with a board vote on an annual basis.

It has been the tradition in some non-profit organisations, including sports organisations, for the chair or president position to be elected by the members at large at a general meeting. Voting members might then feel this gives them control over the key leadership position on the board. If election at an AGM is the route to be followed, then it should be less of a popularity contest than a careful consideration of skill sets.

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 there is consistency between board behaviour and actions and the board's governance process policies. Board members themselves generally have a good idea of which of them would best fulfil this role.

The role of the president

Many NSOs still have the role of president. In some cases, this is because the international federation specifies it will only do business with a president. Generally, the president's role is to be a representative of the members who have duties 'out in the field', and to run the annual meeting. Elected by the membership at the AGM, they can be a useful conduit to the 'grass roots' of the organisation. Where this role exists, it is necessary to record the separate functions of the chair and president and the rights, if any, the president may have at the board table. Commonly they are welcome to attend in a non-voting capacity at the discretion of the board.

Should staff serve on the board?

As a general rule it is not appropriate for staff, including the chief executive, to serve on the board of the organisation that employs them. Although it is common practice 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 and each can focus on their special contribution to the organisation and wear just one hat. Accountability is not compromised. The chief executive is already present at every board meeting 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 both the chief executive's employer and employee. 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 non-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, and is not unique to small non-profit organisations. 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 a volunteer in that space, 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 executive officer but operating in their space. The executive officer or staff member that 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.

For those boards undertaking both roles, it can be helpful to divide the meeting into two parts, covering first the governance matters, taking a break and then returning as an operational group. If there is a staff member, they could lead the second section, emphasising the point that the directors are now volunteers assisting management.

It is useful to have a policy in the board charter that clarifies roles and responsibilities for board members assisting as volunteers.

Board leadership through tough times

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

Boards and board members are further challenged to step up to the plate when the going gets tough – money might be in seriously short supply; there might be a scandal associated with the organisation; the chief executive might be underperforming; or playing sport might be seriously affected by a major natural disaster such as an earthquake or flood, or a pandemic. At times like these 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 difficult times. Strong leadership is often called for. But even a strong leader needs support from those most closely associated with them. 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, their unexpected loss at a critical time in the organisation's life, or the discovery of fraud or incompetence – a board might need to step beyond their governance role and 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 switch modes 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 one who either has questionable motives or seems dedicated to making someone's life (often the chief executive's) miserable. Even if this member appears unlikely to change, 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 the discussion is a vital attribute of competent board members.

There are many reasons why some boards become hamstrung by conflict:

- 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
  - attitude to risk.
- Role confusion and tension, arising from:
  - management versus governance – the full-time professional management is accountable to a part-time, less accountable, voluntary board
  - boards versus committees and other subgroups
  - chair and/or board versus chief executive
  - different agendas – different visions/aspirations for the organisation, and the challenge of establishing a unified vision.
- Different expectations about the amount of information required and topics that should be on the agenda.

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
- keeps protagonists focused on the issues, not on the personalities.

Regardless of the type of conflict, unless they are 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
- the chief executive can support the chair but not do the chair's job.

Characteristics of troublesome board members

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

- 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
- hand grenade throwing – is deliberately contentious and obstructive
- a compliance focus – stresses rules over judgement
- egocentricity – is self-reverential
- 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
- apathy– the board silently shrugs its shoulders and shuts down.

Possible preventive strategies

It is helpful if expectations around board service have been spelt out upfront in a clear position description and associated code of conduct. As with paid employees, having new directors sign an engagement letter that has both parties agree to the expectations of the role means there is a reference point if things go awry. When issues do arise, the following checklist will be helpful.

Recruitment

- Select directors carefully.
- Induct effectively.
- Ensure term limits are in place and honoured.
- Establish clear job descriptions.
- Reach explicit and understood agreement on governing style.
- Adopt a code of conduct/ethics.
- Promote active chairmanship and directorship – referee the boundary lines.

Accountability

- Make performance expectations and criteria explicit.
- Use whole-of-board evaluation and feedback.
- Undertake individual board member performance assessment and follow up with professional development.

Conflict

- Understand the cause of the problem.
- Establish a conflict resolution process.
- Go with the resistance.
- Call in an expert.
- Get tough and say goodbye.

Addressing dysfunction

When dealing with a troublesome board member it is important to distinguish between a director who is genuinely dysfunctional versus one who is merely 'difficult'. Healthy dissent should be valued, 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.

However, 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. The collective view of peers resulting from this process is a powerful mechanism for addressing the behaviour of disruptive directors.

Other typical governance challenges

Many boards continue to make great progress, but the challenges described 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 that reflect the different needs and expectations of various stakeholder groups. These structures often fail to gel and accountabilities become confused. The structures can be historical in nature and poorly positioned to respond to a changing environment.

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

Many boards understand their role is primarily to direct and exercise control over their organisation 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/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 by its individual members.

No training or preparation

Still too many directors in the sector receive little or no 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. Consequently, major policy and directional issues go unresolved, or even undebated, as boards conscientiously grapple with matters which are (or should be) the responsibility of chief executives and their staff.

Recruitment of the wrong types of expertise

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

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

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.

A short-term and retrospective bias

Boards should have a long-term focus. Unfortunately, many focus on matters of historical, operational significance. A board cannot change the past but it can influence the future, so should be spending most of its time on things yet to happen.

The 'urgent' crowds out the 'important'

What is important and what is merely urgent? Not knowing which is which sees major policy and directional issues going unresolved and small (usually operational) details debated at length. The future-focused board spends time on matters that are important but not urgent.

Being reactive rather than proactive

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

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. The question the board needs to ask is, *"Are we moving the dial, and how do we know?"*

A conformance/performance imbalance

Many boards spend too much time checking the organisation has complied with statutory requirements, at the expense 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. Too few boards, however, can demonstrate that they hold themselves to pre-agreed and regularly reviewed performance standards. External reporting on the board's performance separate from the organisation is increasingly common.

Board expectation/management resource imbalance

Few sector organisations have the luxury of large management resources, with staff often performing multiple roles. This can create 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 can 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 than with people. Many boards lack a clear framework for determining what they should focus on and what processes they should apply to be successful.

Sport NZ Integrity Review (2019)

The findings and recommendations of the review are essential reading for directors in the sector. The Integrity Framework, updated in December 2020, the related policies and procedures in the areas of Child Safeguarding and Member Protection, and education and resources developed from the review will inform and assist the board's role in oversight of culture. Addressing the challenges explored in the review will require focus and effort.

https://sportnz.org.nz/media/2751/findings-and-recommendations-sport-integrity-review-updated4.pdf

Overuse of committees

Firstly it is important to clarify the difference between a board (governance) committee and a management committee. The two should not become confused or entangled. They each have separate roles, functions and membership.

Board committees are established to assist the board to do its work. They are chaired by a board member and report back to the board through a board member. Operational (management) committees are established to assist the chief executive to do his or her work. If they need to report back to the board it is through the chief executive. 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 in smaller organisations. When board members assist 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 essential in the past may be (or become) redundant and even detrimental to good governance.

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. Increasingly managers in the non-profit sector have appropriate training, making specialised portfolios unnecessary.

The formation of yet another committee is often in reaction to a new or perceived problem. Common among these are fundraising, sponsorship, marketing and high performance for example. Where there are few or no staff and directors intend to do the work themselves this may be valid. But if not, the board needs to consider whether it is adding value or just duplicating the work of management, and make its expectations in these areas clear to management. If there is a resource or skill issue, then the chief executive should raise that with the board. The board can and should counsel on these matters. If there is more detailed work to be done and some directors have skills that could be of use, the chief executive can choose to form a management committee, but that is the CEO's choice.

Board committees can be a mixed blessing. Committee work can fragment board members' sense of their overall responsibility by concentrating attention on narrow issues. There is a constant temptation to delve into the detail to justify the committee's existence. A committee can also 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 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 questions 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 (e.g. quarterly, annually)? If so, should the committee be regarded as a standing committee with formalised ongoing membership or as a working party whose membership might change or be fluid even throughout the process of carrying out the work?
- Does the committee require terms of reference or can it create its own working processes and structures?
- How and how often is the committee required to report to the board?

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

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

All board committees should have:

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

Mature boards might have only two standing committees: an Audit and Risk Committee and a CEO Performance Management Committee.

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

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

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

Clarifying the 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 they are serving on 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 is 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 preserved.

An example of a board policy (Directors Assisting Outside the Boardroom) can be found online.

The board's role in culture

> **We expect all directors will live up to their leadership obligations in setting, modelling and monitoring the expected behaviours that we associate with the best things that sport and active recreation can deliver to our communities.**
>
> **Bill Moran**
>
> Chair Sport New Zealand and High Performance Sport New Zealand

Intangible assets are now considered to be a greater driver of value than tangible assets. This includes culture. Flawed company culture has been well aired in the media across all forms of organisations and people's lives have been seriously impacted.

Excessive risk taking and unethical behaviour negatively impact stakeholders inside and outside the organisation and ultimately erode long-term performance.

Investors, funders and regulators are taking a keen interest. The 2018 UK Corporate Governance Code notes that annual reports should *"explain the board's activities and any action taken"* pertaining to assessing and monitoring culture, as well as *"include an explanation of the company's approach to investing in and rewarding its workforce"*.

Most boards understand they have responsibilities under employment and health and safety law, although some have fallen short in these areas, and most struggle with their role in overseeing organisational culture. The board should be able to describe the culture of the organisation and how that supports strategy. It needs to be clear about how it assesses, monitors and influences change when necessary.

One possible culture assessment and monitoring process is to:

- describe the desired culture needed to achieve the organisation's long-term goals
- consider what the current culture looks like
- if the culture and goals are aligned, identify the key drivers and how to help management ensure the culture is sustainable
- if not aligned, identify what actions need to be taken
- decide how to monitor the culture, and what the key indicators are
- talk about desired culture and why it is important.

Board tactics to maintain a focus on culture can include:

- maintaining a permanent agenda item alongside health and safety (possibly grouped as people and organisational culture)
- undertaking an annual in-depth analysis of the area (on the annual work plan)
- adding culture to the risk register
- commissioning occasional, independent verification of organisation culture and workplace climate
- providing clear, secure whistleblowing processes that flow through an independently monitored channel. The board has visibility as appropriate for the issues raised
- ensuring key relevant reports are seen by all directors
- broadening the chief executive's performance review to include internal and external opinion on lived values.

For a broader discussion on the board's role see the Sport NZ guide *The Board's Role in Organisational Culture.*

Structures and ownership

Types of ownership

Introduction

The best way to structure play, active recreation and sport organisations in a rapidly changing world continues to be a major issue. Most sporting bodies largely grew 'organically' from the ground up to service competition requirements at the regional and national levels. Some of the founding documents remained little changed 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 the sector, participation either does not require any connection with a formal structure or exists within informal social groupings. Structures and governance continue to evolve, reflecting aggregate forms of delivery through hubs or partnerships.

A varied range of change processes and new initiatives 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 in this resource. The job of the board is to act on behalf of the 'owners' to achieve the best possible outcomes for the organisation. While organisations in the sector 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

Non-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 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 (Annual General Meeting or Special General Meeting); they can alter or amend the constitution or rules; and they can decide to close or wind up the legal entity. In incorporated societies, these owners are usually known as the 'members' or the 'member organisations'. In NSOs 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, the discrepancy between their obligation at general meetings to be truly representative of the clubs and participants further down the structure and the observed reality has been the cause of 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 needs to take these relationships into account in developing a stakeholder strategy (see Step 4 page 89) but not put these interests ahead of those of the owners.

Classes of membership

Non-profit organisations may have several classes of membership. This enables a wider range of individuals to feel they are part of the structure. However, not all of the membership classes are accorded 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 vote.

The historical concept of membership is under challenge when considered against the burgeoning numbers in informal and event-based participation. Membership has tended to be related to an annual subscription. With the rise of 'pay to play' and event-based participation, that idea is being rethought. Time-poor people do not want to commit to formal membership, which may entail obligations of voluntary service or other commitments. Organisations look to have a variety of 'relationships' with a broad range of participants. Many of them will be outside the legal ownership structure.

Membership (Relationship) classes now might include:

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

Legal frameworks

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

Incorporated societies

As noted on page 14, changes to the Incorporated Societies Act are imminent (at the time of publication). Sport NZ publishes updates on implications of the proposed changes. Where possible we highlight likely variations in this section, noting that this cannot be concrete advice until the new Act comes into law.

Incorporated societies are required to have a minimum of 15 individual members (reducing to 10) or five corporate bodies, or a mix of both, when they apply to become an incorporated society. Under the Incorporated Societies Act (now outdated and never designed for large entities) the organisation is controlled by a committee of at least three members. The committee is accountable to the members at general meetings, so are 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. Under the proposed Act, when a society is wound up, the assets can no longer be distributed to members but must go to a nominated non-profit entity.

Trusts

Many non-profit organisations 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 or 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 NSOs have trusts whose role is to own assets and capital funds. Trusts generally do not have members, and this has implications for capturing membership data, disciplining the participating individuals, 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. The former Charities Commission commonly held sport to be charitable. The Charities Act was amended in 2012 to recognise that the promotion of amateur sport may be a charitable purpose if it meets one of the tests of charitable purpose under the Act, for example, if it advances education or has purposes that provide benefits to the community. It is important to note that sport in New Zealand is deemed to be charitable only if it meets one of the tests in the Act.

High performance or elite sport is not 'charitable'. Recent rulings from the Charities Registration Board have highlighted the need for broad, not narrow, benefit. Swimming New Zealand lost its charitable registration as the purpose of the organisation was considered to be predominantly focused on elite activity and so did not provide broad community benefit. In making such decisions, the Board looks not only at the legal documents but at budgets, annual reports and other evidence of operational focus. Registering a change of constitution generally triggers this type of oversight.

The benefits of becoming a charity can include:

- tax-exempt status (including Fringe Benefit Tax)
- better access to donations (including philanthropic funds and donations), as individuals who give money can claim a rebate on the donation
- possible increased access to funds as some funders only give to registered charities
- better rates from suppliers
- improved public confidence, as information about the activities of the charity and the way it uses its resources is available to the public on the Charities Register.

The organisation will need to comply with the obligations under the Charities Act, including filing an annual return with Charities Services (part of the Department of Internal Affairs and the successor to the Charities Commission), outlining its activities, income and expenditure, and other information. This is outlined in the new public benefit entity reporting standard. Charities with a turnover of under $2 million already have to use this standard and all others will need to align their reporting beginning 1 January 2021. The new standard requires reporting on both financial and non-financial information, including purpose and evidence of the achievement of outcomes. Both financial and non-financial information will be audited.

The organisation's charitable purpose needs to be clear in its constitution (e.g. 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 (note the comment about Swimming New Zealand above).

The rise of social enterprise

Steven Moe

Recently there has been much attention on and considerable energy put into the emergence of social enterprises – for-profit business with for-good purposes. This is indicative of the increasing blurring of the non-profit and for-profit worlds. Some organisations in the sector have arguably been operating in a similar vein for some time (YMCA for instance); others are giving this model renewed consideration.

How we 'do good'

The tide comes in and the sea rises, yet moment by moment there is only imperceptible change. The ocean breathes in and out in its slow rhythm and, as a few hours go by, a bay that had been drained of water will be filled with waves knocking at the edges of the beach.

The same sort of change is happening now in the 'for-value' world. The labels, terminology and structures we used to classify 'doing good' are being subject to a steady but certain paradigm shift. The growth of 'social enterprise' is symptomatic of a deeper shift in thinking.

Current assumptions and concepts

If your friend says, *"I'm starting a charity,"* as opposed to, *"I'm starting a business,"* that statement contains assumptions about their motives and ability to make personal gain from their new venture. Funders and donors will look favourably on the new endeavour as there is a mandated requirement that funds will be used for charitable purposes. However, and crucially, investors to provide capital for growth will be few and far between because of the prohibition on private gain.

If another friend starts talking about being an entrepreneur, maybe joining an accelerator programme and bringing in investors, your reaction is going to be very different from the way you would react to the founder of a charity. We might well be looking at the next Steve Jobs or Peter Beck. The 'pitch' gets practised and, compared with a charity, it will be a far easier explanation when asking for money from a bank or investors as it will be assumed that profit and returns to shareholders are the key drivers to starting this venture.

Heart versus mind

Charities should be motivated by emotions that touch on matters of the heart. Business has historically been motivated by rational matters of the mind. When helping people at the very start of their entrepreneurial journey, I see them facing an 'either this or that' binary choice. Do they become a martyr to the cause they believe in by setting up a charity (without the chance for personal gain) or do they become an entrepreneur and embrace the assumption that they are primarily about wealth creation? But what if there was another way of thinking about all this?

The paradigm shift

The paradigm shift – the incoming tide – is a third way, which blends and blurs the boundaries of the traditional binary model. It does not speak the language of 'either this or that'. Instead, it unifies the heart and the mind into one by encouraging businesses that place a very high importance on mission and work to solve a social or environmental issue. This shift in thinking is fundamental as it is at the core of assumptions about the entities we choose to set up and how they will operate. There is a meeting in the middle between business and charity, and the result – at present often called social enterprise – is a blending of the best of both structures. However, over time that term is likely to fade in importance as traditional business and charity – each end of the spectrum – begin to meet and get to know each other in the middle.

The result of this blending is that profit-making, sustainable businesses that are not dependent on grant funding can provide the ability for private investment to access capital for growth and allow those investors to have financial gain, as well as helping make the world better through the people they employ and the service they offer. Part of this change is being driven by the expectations of the coming generation that business is accountable for more than simply the bottom line.

Implication for legal structures

Because there is no bespoke legal entity structure that really 'gets' this shift, we must be creative in how to structure things.

This often takes the form of a charitable trust owning a business (relatively common) or a business that enshrines a for-value mission at the heart of its constitution and commits to regular reporting on how it is travelling. It may even commit to using a certain amount of its revenue to advance the mission. I've been developing a 'social enterprise constitution' which tries to address all these points proactively. What we really need is formal recognition of the paradigm shift and a change – which could just be tweaking – of existing structures to allow people to build even more heart into their businesses. Ākina Foundation has published a number of relevant papers in this area.

Creating a trusted and respected legal entity as a specialist vehicle would help. This isn't that radical – they exist overseas in the UK, Canada, the USA and Italy. The key is to learn from those first-generation models overseas, particularly their weaknesses, and jump straight into a second-generation model here. Such changes could help to advance the cause of combining 'heart and mind' more meaningfully and ensure it is considered as an option. Even if they did not opt in themselves, it would help the concepts to become mainstream so they can be considered as legitimate options.

This is not without challenge. As with traditional forms, there is a need for transparency and clarity with stakeholders and consumers that the mission is being delivered, that trust, time and investment are being repaid. But the tide is coming in and it is time for both sides of the spectrum – charities and business – to think hard about what this means for them.

Steven Moe

Steven Moe is a Christchurch-based lawyer, a partner with law firm Parry Field and an Edmund Hillary Fellow. Steven has lived and worked around the world. His corporate and commercial work focuses on international companies in New Zealand and local companies with offshore activity. His work with start-ups embraces social enterprise. He is the author of Social Enterprises in New Zealand: A Legal Handbook and hosts the podcast 'Seeds', interviewing more than 230 people about their lives and why they do what they do. He has a special interest in the new and emerging forms of for-value enterprises.

Constitutions, rules and trust deeds

Constitutions and rules (the term used in the Incorporated Societies Act) 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; the definition of members and the means by which membership is attained or removed; how board office holders are appointed or elected, and how members control the composition of the board, alter or amend the content of the constitution, call and participate in general meetings, appoint the external auditor 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 it is more appropriate to document them as policies, regulations or bylaws that do not require membership authority to be changed. Any policies, regulations or bylaws must be consistent with the constitution or rules and come within the powers of the organisation set out in those documents. Such policies, regulations or bylaws should not form part of a constitution.

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

Historically the objects and powers of the NSO have been defined as promoting and developing the sport, enhancing participation, promoting and developing competitions, and affiliating with the relevant international body. Increases in high performance funding have seen some NSOs focus on the promotion of elite sport and competitions at the national level, with many of the grass-roots functions residing with member organisations. The reverse is occurring in other NSOs, who are altering their constitution to extend their reach to the whole of the sport. This is often seen in alignment between the regional and national bodies in which a common purpose is expressed at the highest level.

Types of sports organisation structures

Generally, NSOs are a grouping of incorporated societies (a federation) bound by formal agreements.

Most sector organisations in New Zealand are structured as a federation of member organisations, or 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. This is often driven by the need for competition at the regional level and the requirements around national representation and the related funding flows.

Organisations built on a federation structure will have two or more layers of governance. These might comprise different codes, for example, 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. There are benefits to different parts of the federation carrying out specialist roles where there is agreement and understanding throughout the structure about these 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. The issue of levies paid by the clubs to the region and to the national body remains one of the most vexed within federal structures. The component parts of the structure are demanding evidence about use of the funds and the benefits flowing back to them. When combined with the drift away from subscription-based membership, how to fund the structure is increasingly a challenge.

In addition to the members (legal owners) of the organisation, there are often several other associated groups which have a connection to the organisation, but may not be legally or constitutionally linked. They may be connected as associate members with or without voting rights. Examples include national Māori sports organisations, national coach and umpire organisations, and parallel national organisations for people with disabilities.

The traditional federation structure typically sees the NSO, member regional/provincial associations and member clubs operating as separate autonomous entities in accordance with their own 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 NSO 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-level agreements are attempts to create more cohesive businesses within these federal structures and bring greater awareness of the roles that national and branch/regional/code levels need to play to deliver the desired outcomes at every level.

The traditional federation structure is set out diagrammatically in the Appendix, with each diagram based on different member groupings and layers of members (e.g. regions, codes and clubs). Some of the advantages of this traditional structure are that:

- the sport can service a number of different groups or interests at the same time because of the variety of organisations within the structure
- representative groups can have a higher profile within the various layers
- it provides a well-established, well-known structure creating career paths for volunteer administrators based largely on service
- it can engender 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 its strategic thinking and planning, an NSO should consider the appropriate legal arrangement to suit its needs. The various recent change processes are discussed in the section commencing on page 44 and in the online resources.

Federation variants

Several variants have evolved in New Zealand, 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
- removal of the separate legal entity structure at regional level but retention of advisory groups and/or creation of other consultative bodies (e.g. chairs' forums).

Organisations need to consider such adaptations carefully to avoid conceptual flaws that can cause negative consequences. Wide and thorough consultation is essential before making any change. These models can greatly assist a sport to 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 for national sports bodies is the full unitary model, where individuals are the only legal members.

'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, all other structures or entities having non-legal status (in terms of formal membership).

The owners of a strictly 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.

Triathlon NZ remains the only major NSO in New Zealand to adopt this model. Others, like Cycling New Zealand, have a hybrid model where individual members have direct voting rights but only a portion of the overall votes, with the constituent member organisations retaining the voting majority. Gaining meaningful engagement from individual members in election processes can be a challenge in this model.

Several other non-profit bodies have moved to unitary models, Plunket New Zealand for instance. In their case the process took considerable time as many separate entities had to be wound up and use of assets resolved. Unfortunately dissension drifted into the legal realm and public view.

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 or codes, attention must be paid to the design and management of the relationships 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.

Other structures

There is a growing drive to work in partnership either with newly created entities or through partnership or joint venture agreements. The latter are largely business relationships between existing parties and do not therefore have an ownership consequence. They may have implications for both management and governance. The creation of Aktive Auckland, for instance, as a strategy, leadership and investment entity has consequences for how the Auckland regional sports trusts think about strategy and resourcing.

There is a growing trend to aggregate facilities and in some cases delivery. Sixty plus NSOs in a relatively small country will struggle to maintain independent delivery and facility mechanisms throughout the country. The difficulty in maintaining voluntary labour, especially in administrative roles, reinforces the trend. Sportsvilles and hub structures are generally still incorporated societies or charitable trusts but the approach to governance and ownership accountability is rather different. A new and broader set of outcomes is sought that may mean the component parts have to 'let go' of some things. (See page 14 for a discussion of partnership governance.) Note that here we are not talking about the legal partnership structure as seen in professional firms but rather a way of working.

In some cases major event structures have been created to separate the risk-taking enterprise, a world championship, for example, 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 insure against some loss liability but it is more difficult to protect it from reputation damage.

Change

The changing world of the NSO

Arthur Klap

The world is changing and the place of sports and the national bodies that run them is under serious threat. Fewer New Zealanders are participating in sport and even fewer are joining sports clubs – and we have to take notice. Very real questions that boards have to be able to answer are: will their sport exist in 20 years' time and, if so, will the current national body have any role to play?

No longer is it acceptable for NSOs to continue to operate with a 'business as usual' approach. Boards need to consider what steps they need to take to remain relevant. Should they exist at all?

One major NSO president believed that every AGM should commence with a winding-up motion. If the meeting couldn't argue away from the idea in a convincing manner then probably they should indeed close up shop.

Already there are delivery structures and systems that are more nimble, are user pays, and respond to and adapt to the market with more speed. Think of gym-based sports competitions, mud runs and the myriad of events that are now owned by the IRONMAN Group.

At Triathlon New Zealand the board once asked itself what would happen if the national body did not exist. The conclusion was that Tri NZ did have a role to play and the board identified a number of core roles that would be unlikely to happen if Tri NZ ceased to be. These were not the exciting, high-profile areas but the more mundane and often less recognised areas. Examples were the development and management of the sport's rules and the training and accrediting of officials and coaches.

To be clear on how to develop and implement your strategy, it is critical to understand how external factors could impact on your future. Take time out to consider how factors such as changing demographics, climate change, town planning and technology affect your sustainability. What can you do now to positively impact on your sport's future? What is happening in other sports?

Importantly, the assumption that your NSO owns your sport is highly debatable. Thirty years ago Kerry Packer was able to change the direction and effective ownership of cricket when he introduced the one-day game. Today we see rugby players in their prime electing to forego being an All Black and heading off for the money in Europe. The Cavaliers' tour of South Africa in 1986 proved how shallow the loyalty to the New Zealand Rugby Union was of both leading rugby players and administrators.

So should NSOs retreat to an IP/licensing position in the market and get out of delivery? The idea that they can significantly influence the delivery chain has proved to be a questionable concept. Be honest about how strong a hold you have on your sport.

My final point is about sustainability. Many NSOs continually sit on the edge of being financially viable. This has always been the case, but now board members need to be far more aware and careful. It is a big step, but carrying losses to a point where you no longer have sufficient resources to cover future financial commitments is negligent. Some organisations may need to dissolve, even though that could mean the end of that sport or activity, at least at a national level.

However, it would be better to develop an understanding of what sort of new structure(s) would best serve your sport at a national level and move towards that. Does it require merging with other sports or allied commercial organisations? Is delivery best done at the local level? If you can answer these sorts of questions, you will be better able to future proof your sport.

It is a fallacy that sports are businesses. Most are not. They can be more business-like in the way they operate but their purposes usually include delivering many services that would quickly be ditched by a commercial operation. High on that list would be running high performance and sub-elite programmes when there is insufficient revenue to cover that cost.

So what does this mean for your board? It means the world is changing and it is imperative that you change with it. You need fresh eyes, people and strategies. Staying the same is not an option.

Arthur Klap

Arthur Klap has taken leading roles, from community through to international level, in the sector since his early twenties. His company, Sports Impact Ltd, has organised 12 world championships across eight sports as well as founding ongoing events like the New Zealand Masters Games, the Winter Games NZ and Wellington Round the Bays. Arthur has chaired two of New Zealand's leading sports organisations, Triathlon New Zealand and BikeNZ (now Cycling New Zealand). He recently participated in the Design Team leading the Future of Play, Active Recreation and Sport project sponsored by Sport NZ.

Change processes

Drivers for change

Many recent change processes have focused on structural change. Some structures and methods of delivery have remained unchanged for a long time and now have limited relevance to the realities of the contemporary world. In many cases the sport itself has evolved, with variants and disciplines coming and going. But one clear caution has emerged from such processes. Viewing structure as the only problem or the miracle cure is likely to be a misplaced focus.

Perceived drivers for change include:

- giving ground to competing sports or other providers (events, facilities-based, commercial providers)
- a corresponding shrinking membership and revenue base
- reducing numbers of volunteers struggling with higher levels of compliance and the ongoing need for fundraising
- 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
- the consequent need to take a whole-of-sport view outlining pathways for participants, coaches and officials.

See also Robert Hickson's analysis on page 111 outlining change drivers at the individual level.

The change process

Change processes 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 and wide-ranging change is required. Evolutionary change will be more considered and possibly achieved in increments over a longer timeframe. Ultimately any change in a membership organisation needs to be put to the vote. Leading up to that point any change process will need to address issues like:

- 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?"
- what will be better, by when and how will we know?

Findings from change projects

In 2011 Sport NZ 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 findings, listed below, remain highly valid as they were largely about the behaviour of the people within and affected by the change process:

- 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-in to 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 if 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 are traced back to poor leadership, notably board leadership.
- Without credibility and trust, any change process is most unlikely to succeed.
- Most processes are hampered by a lack of detail in resource planning and in implementation.
- There is a perceived need to refocus expenditure into the areas of communications, people and planning. All sports underestimate 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 is a lack of pre-agreed measures on how success will be measured.

Change takes time and needs to be viewed over periods of five plus years. This is especially relevant in the non-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. Anecdotal evidence from leaders involved in such processes indicates there is no substitute for 'shoe leather' – showing up and talking, again and again. Also, everything takes twice as long as contemplated and costs three times as much.

See also the following commentary on change processes.

Change processes – some practical advice

Ivan Harré

When embarking on change with your organisation or across your sport, the process can be broken into three key stages: why you are changing, what you are changing and how you will change.

Why is the change necessary?

Ensuring clarity on the WHY will provide guiding principles to focus on.

- Be open and agile – in defining the change you may find that you end up in a different place from where you expected. Delay defining solutions until you have a clear understanding of WHY change is necessary. You will be expected to continually justify any changes.
- Great questions to ask your participants are: *"What does success look like for you?", "What will our sport look like and feel like after the change?"* The answers to these are anchoring statements.
- Understand your mental models – the lenses through which people see the world, which are based on values, beliefs, ideas, images and verbal descriptions that we consciously or unconsciously form. Your sport will have unique mental models and if proposed changes are in conflict with these, you must first address the prevailing models.
- Use multiple approaches to gain input and insight – for example, workshops, surveys, social media. People say different things in different forums.

What is going to change?

The process of defining what is going to change can be more important than the change itself.

- Changes should be defined by people who are truly representative of the participants. Engage in practical, meaningful ways that define real outcomes, but remember these people are generally volunteers or full-time, busy employees, so you can't expect too much 'work'.
- Understand what is really important to your participants. If you plan to disrupt what is central to them, you need to move carefully.
- Most people will take a local view, so changes have got to be localised and locally relevant. Consider defining national approaches (or frameworks), with local solutions (or implementations). Be clear on the core aspects of the national approach (mandatory elements) and elements to be localised.
- Avoid 'flavour of the day' changes. Only change where it makes sense to your sport, your participants, your mental models.

How will you make changes?

- Changes to things that really matter to your participants or disrupt mental models need to be made with caution and maximum engagement.
- Changes to things that participants are less concerned about can, and should, be done quickly.
- When the change is clearly defined and agreed, it is generally best to maintain momentum and change as quickly as possible. Provided the WHY is agreed, little is gained by changing slowly, but there is a huge risk of causing frustration and disengagement through slowing down. Once agreed, people will deal with the changes better if you just get on with it.
- Changes need to be actively managed all the way to completion. Participants, clubs and associations are focused on running and participating in sport. Change won't happen without active management or, worse, changes will happen inconsistently, leaving your sport fragmented. It is not enough to define the WHAT and expect people to get on with it.
- Proactively identify risks. Imagine the change has failed and imagine why – this is a concrete exercise for people to think about risk.

Non-negotiable elements in change

- Put the participant in the middle of everything – WHY will the change be better for the participant? What does the participant need? How can we manage this change to the greatest benefit of the participant? And remember everyone is a participant – players, coaches, officials and administrators.
- The engagement and participation of the board in change is a key success factor. It is vital board members are visible, non-ambiguous in their support and actively engaged. If there are concerns about the programme, these need to be dealt with in the boardroom, with a united and broadly understood case for change.
- Communicate openly and regularly in a transparent and credible manner. In the absence of information, people will make stories up and they will probably be worse than the reality!
- Identify all stakeholders early and consider a plan for engagement with each one.
- Respect that you govern a member-based organisation. There is a delicate balance, truly exposed through change, between leading the organisation and your role in representing the members. Nothing happens without your members agreeing. Deliver or front up and explain why.

To embed change capability, have a retrospective after the change process

- Did we achieve the objectives?
- Are the key stakeholders (first and foremost the participants) happy with the outcome?
- Did the people involved have a rewarding/learning experience?

Ivan Harré

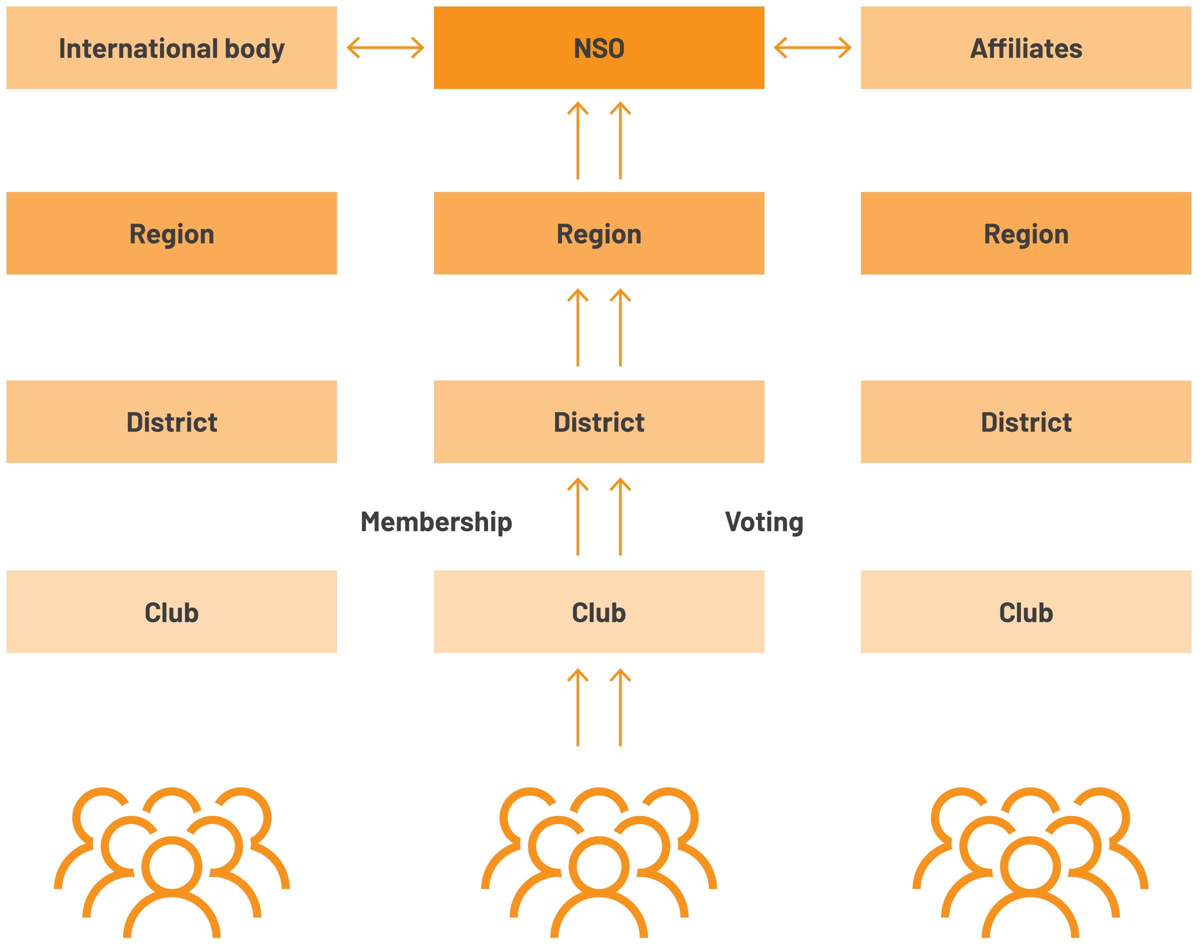
Ivan Harré is a sports and media consultant. During the past nine years he has worked with many sector organisations on transformation projects. This has included facilitating structural review and change. It has necessitated a clear understanding of the roles within the system – for example, national, regional, clubs, facility owners – and how they can work effectively to deliver quality experiences to participants. Ivan has a Master of Business Administration specialising in Project Management from Henley Business School. He is currently the Programme Manager of the Pacific Sporting Partnership with Netball New Zealand.

Appendix

Types of structures

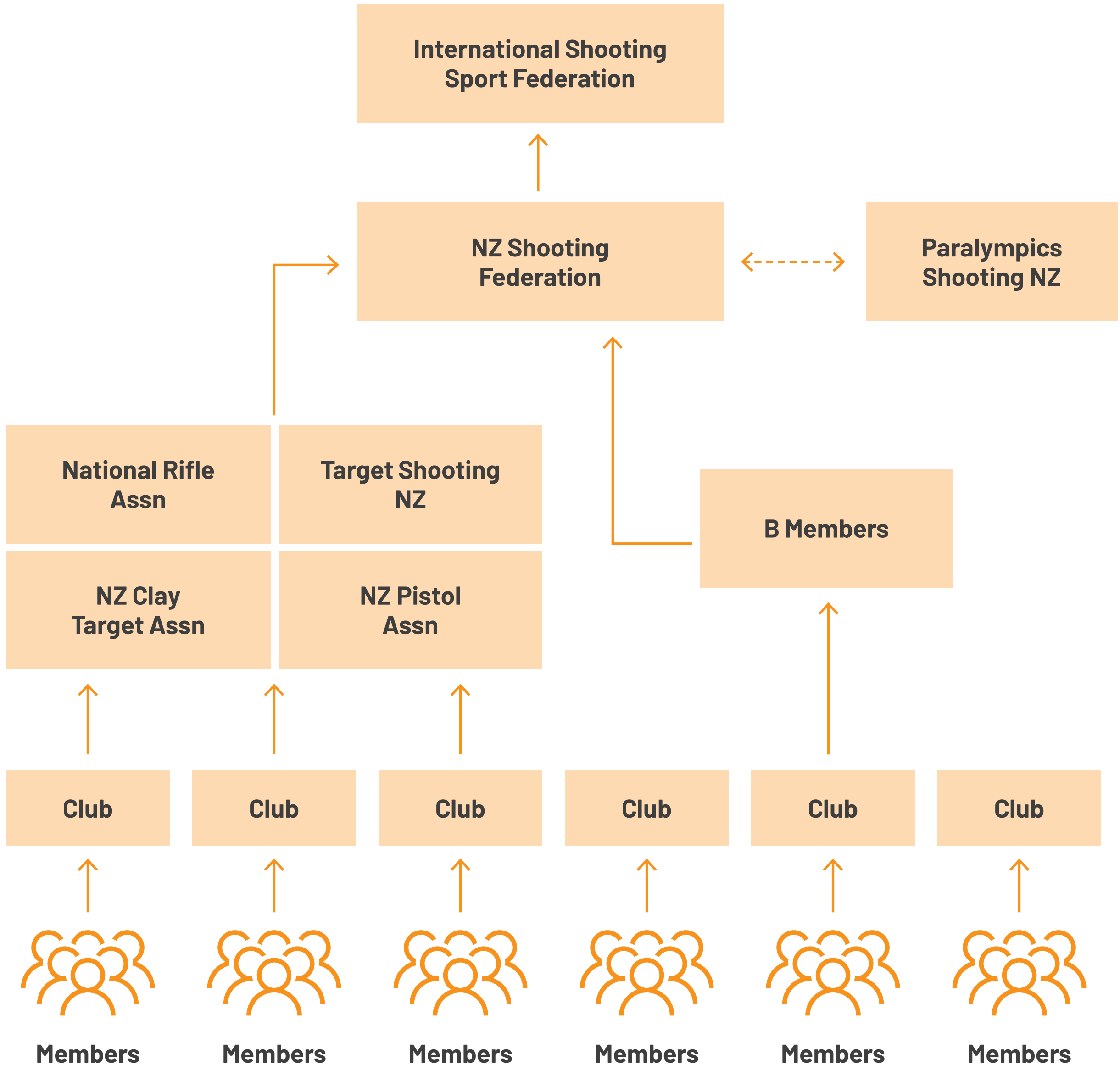
Federation of regions, districts and clubs

This diagram depicts a multi-layered, 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.



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, shooting, 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 clear, documented understanding of areas of cooperation and areas of separate enterprise. Most of these structures have sought greater alignment and integration as they grow.



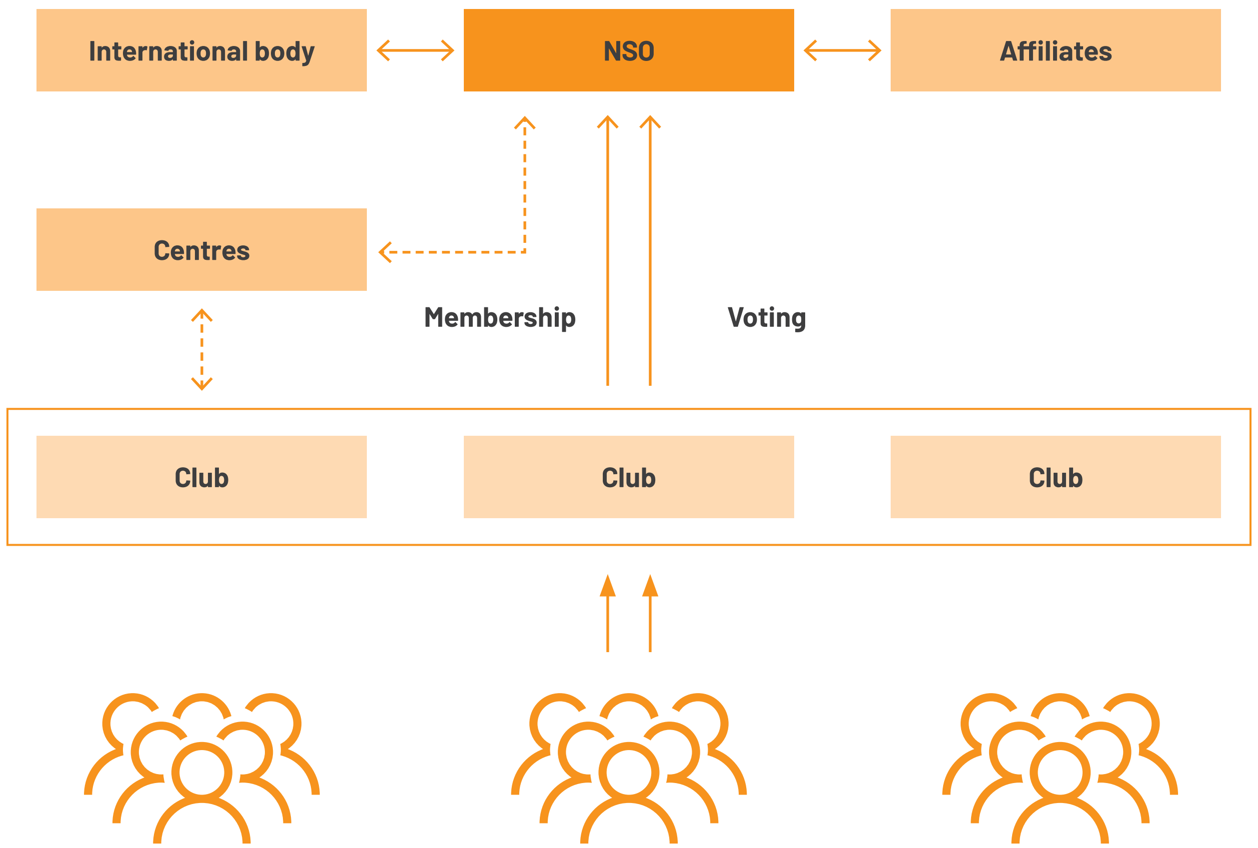
The Federation's A members represent 250 clubs with 14,000 members. A member status denotes competing at a certain level and above. They have two votes at the AGM and B members have one vote.

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 Gymnastics New Zealand and Athletics New Zealand have gone to a one club, one vote model. In both cases roles and accountabilities have changed with the need for all to add value in the context of a more 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.

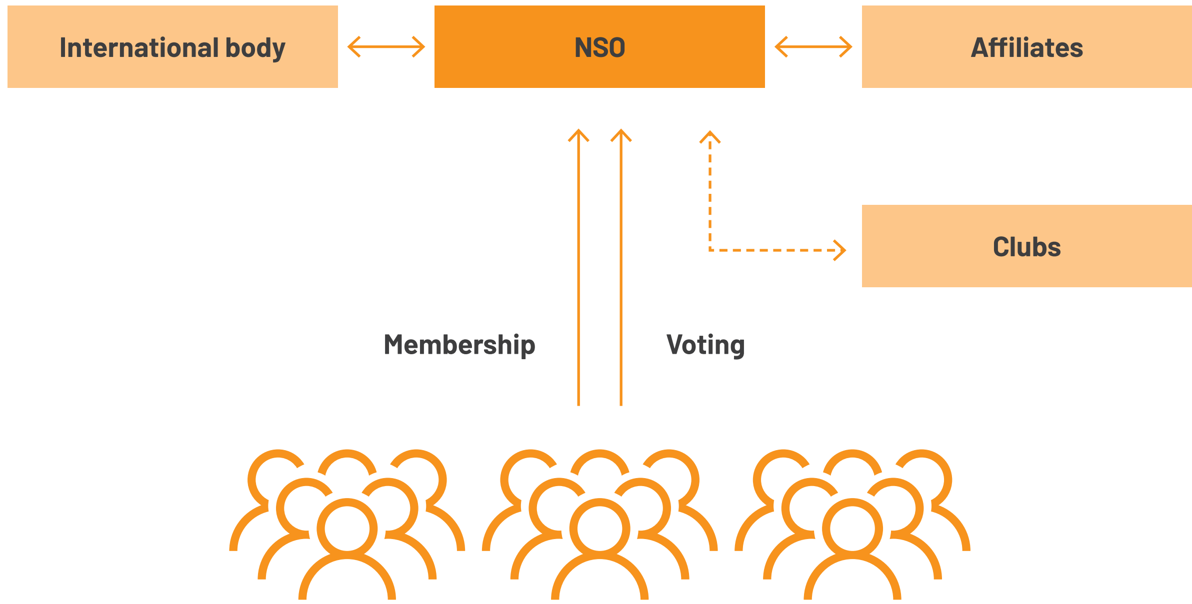
There is no one answer as all sports are different. Team sports and sports with facility or playing surface requirements will be very different from the individual sports that require little infrastructure and where participants have greater flexibility.



The Club connected directly to NSO model (in this case Athletics New Zealand)

Unitary structure

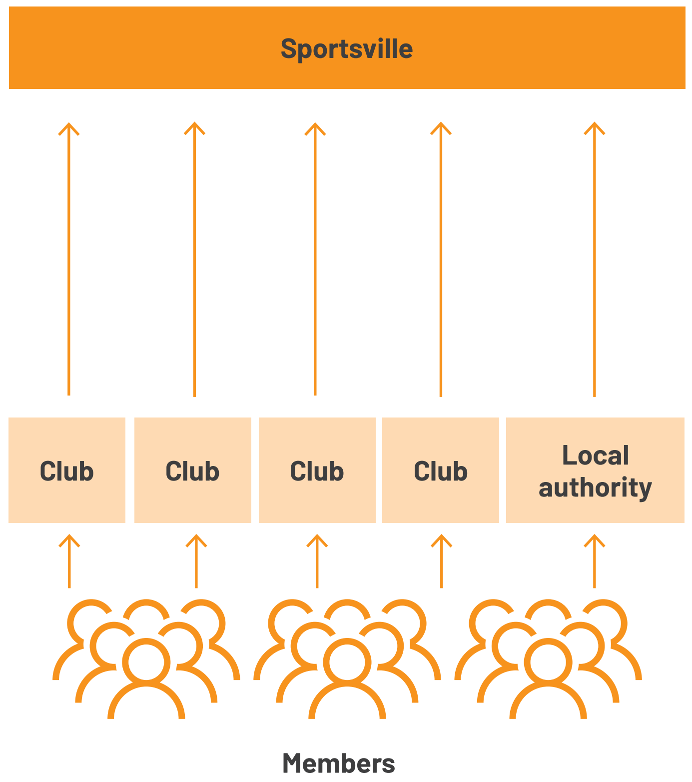
This is the simplest of the NSO structures and more suited to some sports than others.



Groups of clubs

As clubs grapple with competition of all kinds, aging facilities and declining numbers of volunteers, cooperative structures are emerging, often called 'sportsvilles' or 'hubs'. There are many possible ways to structure the ownership and governance of these models. Often it will depend on the relative resource contribution of the parties and whether there is a dominant player, for instance a local authority. Generally, these are asset focused and therefore a charitable trust is the ownership vehicle. Rather than election systems, the parties involved in the project have a predetermined number of representatives and votes at the table. The relationship and rights of the parties need to be worked out with care.

See also Partnership governance on page 22.



Comparative table

The table below shows some key differences between an incorporated society, a charitable trust and a limited liability company. Note that changes to the Incorporated Societies Act are imminent at the time of publication.

	Incorporated society	Charitable trust*	Limited liability company
Suited to	Non-profit organisations where members have a common interest (e.g. sport, hobby or community interest).	Non-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 (a corporate body counts as three individual members) or a mix of both.	Minimum of two trustees.	A minimum of one director, one shareholder and one share.
Decision making	By members at the 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. 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 usually bound by any rules.	Shareholders
Accountability	Committee/board accountable to the members.	Trustees are accountable to the beneficiaries and must comply with the trust deed and the Trustee Act (and, Trusts Act from 2021).	The directors are accountable to the shareholders and creditors and must comply with the Companies Act and any other applicable legislation.
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.
How to incorporate	Send applications to the Registrar: • an application form • two copies of the rules • statutory declaration (certificate of confirmation).	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 (if any).
Maintaining registration after incorporation	Send to the Registrar: • annual financial statements • rule changes (including names) • change of contact details.	Send to the Registrar: • rule changes (including names) • change of contact details.	Send to the Companies Office: • annual return • change of contact details/name (including registered office) • changes to shareholding • constitution changes • in some circumstances, financial statements.
Winding up	According to the rules – surplus assets can be distributed among members unless charitable status applies (surplus cannot be distributed among members but must go to a nominated non-profit entity).	According to the trust deed - surplus assets must be distributed to other charitable organisations.	According to the constitution – surplus assets can be distributed among the shareholders unless charitable status applies.
Reporting requirements for organisations registered under the Charities Act	All organisations registered under the Charities Act need to file an annual return (including financial statements) with the Charities Services in the Department of Internal Affairs and notify changes to the name, address, rules, purposes and officers. Organisations (other than trusts) must also report to those people in a position to have significant influence over the management or administration of the charity.		

** Note that a Charitable Trust Board can be established by individuals (trustees) or an unincorporated society. There are different requirements for each. The table above does not deal with the registration of an unincorporated society. ** It is possible for a limited liability company to have charitable status in specific instances.*
**** Reducing to 10 members in the proposed changes to the Incorporated Societies Act.*

Sample legal templates

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

Further resources: Concepts, challenges, structures and change

Online resources

There is a comprehensive set of online resources available at https://sportnz.org.nz/resources/nine-steps-to-effective-governance-building-high-performing-organisations/

Resources referred to in this section include:

- Board charter and governance policies
- Charitable trust – sample deed
- Directors Assisting Outside the Boardroom policy
- Incorporated society – sample constitution
- Research paper – 'The Director Tenure Debate'
- Research report – 'Organisational Change in Seven Selected Sports'
- Standing committees of the board – terms of reference
- The Board's Role in Organisational Culture

Essential reading

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Governance in a Māori context

See the reports by KPMG on Te Ao Māori:

Māui Rau: Adapting in a changing world, 2016

Māui Rau: From signal to action, 2017

The Nine Steps framework

Introduction to the framework

Policy Governance® – the basis for principled board leadership

Policy Governance® is the trademarked name for a model of governance developed by US 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 non-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 in an ad hoc fashion, as is often the case. The model proposes four sets of board-level policies, described below.

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 2025, 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 possible actions required to achieve the outcome and will include activities like coaching, providing facilities, and marketing.

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 high-level delegation to the chief executive.

These policies are all further discussed throughout this guide.

A sample set of policies for play, active recreation and sport organisations 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 effective governance. It is presented as if a newly formed board was about to begin its work. This varies from the third edition and is a return to the original concept.

Step 1: Define and agree the board's role

Firstly 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 2: 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 the board must address over the course of the governing year. Boards in all sectors are now developing annual agendas.

Step 3: Make 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 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 it 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: 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 their authorities are and what the board expects them to achieve. Clearly defined delegation policies give the chief executive the confidence that they 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 6: Measure and monitor the right things

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 job. Monitoring and assessment of organisational effectiveness are 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: 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 8: Get the right people on board

It is essential 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 9: Provide purposeful induction

Step 9 closes the loop. Most boards have a regular infusion of new members bringing new skills and experience, and it is imperative that all newly appointed directors receive 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.

Step 1: Define and agree the board's role

> **Your position in life and what you do doesn't matter as much as how you do what you do.**
>
> **Elisabeth Kübler-Ross**
>
> Psychiatrist and theorist

Policy leadership: the need for effective 'policy'

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

Some organisations rely on their constitutions almost exclusively for guidance on governance responsibilities and processes. As was described in the section on structures and ownership on page 37, a constitution, or rules, defines the components of the contract between the owners (members) and the organisation. While the contents of a constitution might be considered 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 typically includes a list of functions and outlines the powers of the board, but these statements usually fail to state unequivocally why the organisation exists and what it must achieve in terms of its impact on the world. This leaves a lot of work for the board to do.

The constitution (or rules) is still 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 having to be directly involved in all decisions.
A policy is an agreed basis for action, made ahead of time.

Developing a board charter

Boards in all sectors – private, public and non-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 long. It is not necessary to have such an extensive document but a board charter should be comprehensive enough 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 start with some 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 discussed below (see page 63). The only examples missing are the Ends policies, which, unlike the others, cannot be offered as a generic set to be tailored. However, Step 4 has an example of a statement of strategic direction for a sports organisation. 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
- ensure there is a well-defined and 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 while they are actually operational policies that belong at the operational level under the authority of the chief executive.

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

Policies as remote control

Terry Kilmister

What is policy and how should it be used? Research carried out across a wide range of New Zealand play, active recreation and sport organisations makes clear that governance-level policy remains a somewhat misunderstood concept. Many sector boards struggle to understand its value and application.

Managing or overseeing from a distance is difficult

In the eyes of the law, individual directors hold a duty of care and potential liability for the affairs of the legal entity they govern, whether this is a company, an incorporated society or a charitable trust. Similarly, the board as a whole is viewed by shareholders, members and beneficiaries as holding a collective responsibility for organisational success. It's no wonder, then, that many directors worry and wonder how they can meet these expectations when their role is, to all intents and purposes, part time. Managing or overseeing from a distance is difficult. A way must be found to provide both guidance and accountability for those who work inside the organisation in order for directors, who work outside, to be certain and comfortable that 'all is as it ought to be'.

Policy serves this purpose by creating a form of remote control for the board. The model outlined in this book is based on the board's formulation of a policy framework that provides the highest level of organisational leadership, leadership being at the core of the board's role. Policy defines what must or must not be done and what must be achieved. In essence, policies are 'instructions' to both staff and the board itself about the values and perspectives underpinning organisational life, an underpinning designed to ensure effectiveness, efficiency and integrity.

Policies define what must or must not be done and what must be achieved

Policy and its use in organisational life is not new. However, it brings with it a wide range of interpretations and understanding, which might all fit within a shared generic framework, but not always with shared clarity of intent or outcome. For example, policy could be used to signal a set of guidelines that might or might not be followed in detail, e.g. conditional on the achievement of an acceptable outcome. It might be used to indicate a general principle or guideline that's permitted to be open to interpretation, or it might serve as the equivalent of a 'rule', that is, a statement of intent that is not open to interpretation, nor regarded as merely a principle or a guideline. The latter is the ideal if policy is to be truly meaningful.

Haphazard governance abounds. This is not to say, however, that this is always, or even often, intentional. The lack of a governing policy framework commonly leaves directors second-guessing management, interfering in their role and, more often than not, failing to provide the leadership necessary for those who work in the organisation to be sure that their efforts will meet the board's approval. Well-framed policies offer a coherent framework for both the board and management, with decisions and intent stated in advance so that certainty is provided when choice is faced. For example, the statement of strategic direction/ intent (or Ends policy – perhaps the starting point for all further policy), developed and owned by the board with management assistance, provides clarity about who the organisation exists for and what must be achieved on their behalf. While there might be opportunities for management to delight and surprise by 'going beyond', what they 'go beyond', that is, the outcomes stated in the plan, is the basis for the delivery of the right or core outcomes.

Similarly, while the board expects its managers to use their initiative, experience and expertise in the design of operational methodology, the board makes clear via its delegation policies which methods or choices of actions are acceptable and which are not.

Over the period of more than 30 years of working with boards, I've seen boards that have policies but ignore them and boards that have no policies, instead working from meeting to meeting on the basis of ad hoc decision making. I've seen CEOs struggle to find a stable basis for delivering what the employing board wants because this hasn't been clearly stated; and CEOs who simply go their merry way in the absence of any policy clarity. Each of these situations results in the potential for organisational failure, disappointment and frustration across all parties involved in the upper levels of organisational life.

Merely having policies, however, doesn't guarantee governance and management success. But the lack of policies increases the chance of failure.

The Nine Steps model provides guidance to assist governing boards to design their policy framework based on generic, but thoroughly tested, content. Boards are invited to use the sample policies offered and to add, delete or amend as required, but in doing so to honour the principles underpinning the model and its approach to policy writing.

Terry Kilmister

Terry Kilmister is the co-founder of BoardWorks. He has provided governance advice and consulting services to a wide range of organisations in the commercial, public and non-profit sectors for more than 30 years. During that time, he has specialised in the sport sector in New Zealand and Australia. Terry has extensive direct governance experience, having served on numerous boards both as a chair and as a director. In his own right and in a writing partnership with Graeme Nahkies, Terry has written and published several books and more than 300 articles addressing governance issues. He has written best practice governance manuals for both Australian and New Zealand public entities.

What are policies and how are they made?

A comprehensive policy framework allows a part-time board to exercise full-time accountability for the organisation.

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 resources follow this pattern.

The board can conclude its policy making only when it's confident that whoever it is directed to, for example, 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.

The Ends policies or statement of strategic direction, the Governance Process policies and the Board-CEO Interrelationship policies are all written in prescriptive form in the Policy Governance® model; 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 5.

Speaking with 'one voice'

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

It is 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.

Making sure the policies are workable

Effective leadership policies are:

- explicit and literal – everyone has a shared understanding of what the policy is
- brief – 'too long' and 'too many' are the enemies of good leadership
- 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
- developed with monitoring in mind – the wording should be written in results/outcomes 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 the:

- board terms of reference
- board code of conduct
- board's role in setting the strategic direction and overseeing financial performance, risk management and the overall organisational performance
- chairperson role description
- new director induction
- management of conflicts of interest
- meeting protocols
- board committees
- cost of governance.

Sample policies are available in the online resources.

Other governance policies

The two remaining governance policy areas, the Board-CEO Interrelationship and CEO Delegation, are discussed in detail in Step 5. Regardless of where they appear in the Nine Steps model, they are still governance policies and sit alongside the group of policies entitled Governance Process.

The chief executive's own operational policies

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

The board shouldn't adopt or approve operational policies.

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

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

The role of the chair

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, chairs are ideally regarded, and regard themselves, as 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 through 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, and a domineering chair may run roughshod over participation. 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
- keep meetings focused on the 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
- facilitate full participation from directors, with all voices being heard
- observe a recognised 'rules of order' process for board discussion
- ensure the board charter 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
- not directly supervise or direct the chief executive other than to provide support or a sounding board within the agreed framework of 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, so they can ensure potential conflicts don't throw the meeting off course. 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 it is essential for directors to work together as a team, they are also 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 the 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

Diversity of thought is vital on a board. 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 managing potential damage to team cohesion. The chair is often asked to walk a fine line that 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 support 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 to 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 so bears the sometimes uncomfortable and lonely burdens of leadership.

The companion resource *The Role of the Board Chair* discusses the position in more detail.

Questions

The role of the governing board

- Is your board performing the key functions of a governing board?
- Does it clearly understand 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?
- Are your policies understood by all board members and used actively by the board to provide the necessary influence on organisational performance?
- Is there an understood cycle of review for your governance policies?

References and further information

Online resources

Board charter and governance policies

Cost of governance

The Role of the Board Chair

Why Do Boards Exist?

Essential reading

Carver, J. *Boards that Make a Difference*. 3rd ed. San Francisco: Jossey-Bass, 2006.

Chait, R P, W P Ryan and B E Taylor. *Governance as Leadership: Reframing the work of nonprofit boards*. Hoboken, NJ: John Wiley & Sons, 2005.

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Nahkies, G and T Kilmister. 'Eight basic expectations a chief executive has of his or her board'. *Good Governance* 23 (September-October 2001).

Step 2: Develop the work plan

> "If you can't explain it simply, you don't understand it well enough."
>
> Albert Einstein

Controlling the board's work programme

Developing an annual work plan

Elaboration of an annual schedule of board meetings, board retreats and other board activities 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 a haphazard manner. The annual agenda needs to be defined well ahead of time.

In developing an annual agenda a board might consider all its significant events and duties for the coming year, allocating a date to address each of these.

In addition to the matters brought to the board at every meeting (e.g. financial reports), items might include:

- preparation for the AGM
- the chief executive's performance appraisal cycle and key dates
- board performance review
- an annual review of organisational strategy
- an annual retreat
- dates for retirement/selection of new members
- designated and planned 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
- a schedule for policy review.

It would also include dates for significant events including national championships and annual awards dinners.

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.

Focus on challenges

The board needs to stay focused on the primary challenges the organisation is facing. Those challenges should be identified and scheduled for discussion either with a review of key result areas or as stand-alone items on the annual work plan. The discussions should include a regular review of mission-critical risks.

Strategy is a considered response to the issues that lie between where we are now and where we want to be.

Sample meeting agendas are in the online resources below.

Sample work plan

Annual board work plan		
January	**February**	**March**
	3/2 Audit & Risk Committee 10/2 Board meeting Health and safety/organisational culture review Key strategic issue #1	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 Health and safety/organisational culture review Key strategic issue #2
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 Health and safety/organisational culture review
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 Key strategic issue #3	5/12 Board meeting Six-monthly CE review Quarterly policy review Health and safety/organisational culture review

Question

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

References and further information

Online resources

Sample annual plan template

Sample meeting agendas

Essential reading

Kilmister, T & G Nahkies. 'Developing an annual agenda'. *Good Governance* 11 (September-October 1999).

Step 3: Make meetings count

> **"A camel is a horse designed by a committee."**
>
> **Sir Alec Issigonis**
>
> Automotive designer who designed the Morris Minor and the Mini

A board's productivity and effectiveness are based on its understanding and implementation of theory and practice. These elements come together 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 aspects:

- Desired strategic achievements – this includes an understanding of the environment and issues impacting on the organisation's ability to achieve its goals
- Risk factors that could impede or disrupt the organisation's ability to achieve the desired results – this involves monitoring the chief executive and ensuring organisational compliance with board policies and externally imposed statutory and other requirements.

Key meeting considerations

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.

More frequent meetings, for example monthly, put pressure on staff, particularly in small organisations. Every six weeks is a common cycle that works well.

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

A group can truly focus for only two to three hours; after that, attention wanders. In structuring a meeting, a short 'warm-up' period is useful to socialise directors again, and there will need to be some brief formalities at the beginning of the meeting. But together these should occupy as short a time as possible before moving into the substance of the agenda while people are still fresh. Compliance, for noting material and even minutes, can be dealt with towards the end of the meeting.

Type and place of meeting

Boards should look at whether their usual meeting room provides a satisfactory environment. Factors to consider include seating comfort, acoustics, lighting, temperature control, and equipment, all of which can contribute to or detract from effective deliberation.

Focus and structure

The time available for a board to meet may be 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. While it's important to observe trends and understand what lessons can be learned from past efforts, the board has no ability to influence what has already happened.

Boards may benefit from occasionally reviewing their use of time, by allocating different topics into one 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 will encourage debate about what is an important use of board time. Over time, the board should aim to increase attention to matters that are important but not urgent. Environmental monitoring, strategic thinking, policy making, relationship building, risk characterisation, and performance review and development would typically be in that category. These can be scheduled into an annual agenda as outlined in Step 2. One of the board's main value-add functions is 'sense making', spending time considering major trends in the operating environment and thinking of options for future direction. This is the 'brain work' that is expected of a diverse and competent group of directors.

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. The chief executive and other managers tend to plan the board's meeting with their own roles in mind, rather than with a sole focus on the board's governance task.

It is important to structure and sequence agenda items so that more demanding strategic issues are tackled early in the meeting and monitoring and other compliance-type topics are left until later. 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. Retreat-style meetings like this can be worthwhile as long as it's not assumed that strategic thinking is something to be undertaken periodically rather than as a matter of course.

Some boards use what is known as a 'consent agenda'. This groups items that are presumed to need no discussion and so 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:

- planning meetings effectively and managing them well
- producing appropriate, concise board papers that get to the heart of the matters on which the board must deliberate
- having board committees or task forces explore the issues ahead of the meeting, help gather relevant information and frame issues
- encouraging each board member to be well prepared
- allowing board members to ask probing questions
- encouraging self-discipline and concentration among meeting participants
- having proactive policy that prevents the board from needing to consider everything in an ad hoc manner.

Developing a 12-month or annual agenda

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 2.

Virtual meetings

Our COVID experience made it necessary to rely on virtual meetings. But the board still needs to meet face to face for some of the time, as there are aspects of human dynamics that are just not possible with current levels of video technology. The rapid shift to Zoom and other platforms did have some positive side-effects, including the realisation that much of the material that previously filled up meeting time was not necessary. It also permitted quick responses to a rapidly changing environment and saved time and money. It is likely we will continue to partly rely on virtual meetings. Recent experience has highlighted the good and bad about the format and we have quickly learned some good practice principles.

Is this an option?

Some constitutions restrict the board's ability to meet virtually. The board can request a dispensation from the appropriate regulator, but given that many organisations have permanently moved a portion of their meetings to video it may be prudent to amend your governing document.

Technology

Good quality internet and electronic board meeting software are no longer nice-to-haves. A comparison of popular board meeting software can be found on this website: https://www.capterra.com/board-management-software/.

More direction from the chair

A good chair lets a discussion flow, allowing dialogue to unfold, but keeps a close eye on proceedings. In online meetings the chair needs to be far more directive and ensure everyone is heard. Polling everyone for opinion is hard, so it is better to look for the negative: *"Does anyone disagree here?"*

Airtime discipline

In a virtual meeting it is good discipline for directors to speak once and succinctly on any matter. Do not repeat what others have said. If you are not talking, switch the microphone off. The decorative bits of conversation – good point, quite right, slight sighing – do not work in this environment.

Your physical environment

Joining a board meeting from home requires a quiet, private space, a plain background, good lighting and a camera angle that presents you in a neutral straight-on view. We all like working in casual attire at home but some effort is needed for the board meeting.

Process issues

Make sure everyone knows how decisions are being recorded. Good meeting software has the built-in functionality to record decisions.

If someone needs to leave the meeting because of a conflict of interest or another matter, make the process for leaving and re-joining the meeting clear.

If confidentiality is important, ensure audio can't be overheard. A headset is almost essential for a good meeting and is a courtesy to others as it helps filter background noise.

Social warm-up

Many boards have a short period of social limbering at the start of a meeting. There is no reason this cannot be duplicated online and it helps compensate for the loss of the social bonding that occurs through physical presence.

Getting the work done

Sitting in front of a screen for long periods is hard, so meetings should be shorter – two hours maximum is suggested. Lengthy presentations do not work. If more time is needed, schedule a break.

Focus on the truly important. The chair should make this clear at the outset.

The agenda and board papers

Anything that can be done offline should be stripped out of the agenda. Wading through detail does not work. Clear, succinct papers need to be provided well in advance to give directors time to make queries before the meeting.

Both the board and management need to be well prepared, even more so than in face-to-face meetings.

As this is likely to become a permanent part of the way we work, it may be useful to add some agreed virtual meeting behaviours to the board charter.

A few tips

Some of these are things we have all learned the hard way in the COVID era:

- Test your audio and video settings before the meeting. There is nothing worse than waiting for everyone to resolve their technology issues.
- Check you can be seen clearly.
- Break up the meeting with long and short items.
- The chair should check in on everyone on the call every 10 to 15 minutes.
- Do not multitask, whether in a virtual or physical meeting.
- Be very aware when your camera and microphone are on.
- Take a break every hour.

Participation and satisfaction

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

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

Satisfaction with meetings is likely to be greatest where:

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

Agreeable disagreement

A board exists to allow a range of perspectives and a working culture that facilitates a 'creative tension'. If there is little dispute and continual consensus, why have a board at all? Research[6] indicates that the presence of productive conflict produces better decisions.

The need for diversity of thought is discussed in Step 8. The more diverse the group, however, the harder the chair and other directors will have to work to maintain the cohesion of the group.

The right question not the right answer

Success often comes from knowing the right answer in a given situation. But at the board table, knowing the right question and how to ask it is the skill that is needed. The board and the chief executive are a team mutually committed to delivering success for the organisation. Unless the board has lost faith in their key staff member (see page 102), the purpose of questioning is not to challenge or trip up but to collectively learn and improve.

Ask open questions first:

- What do you think is causing this?
- Could you say more about it?
- Can you locate the root cause using the five whys[7] questioning approach?

Then seek solutions – bringing ideas together:

- What possibilities do we have?
- What do you want to do next?
- How can we get this back on track?

Try and avoid:

- leading questions – do you agree X is the problem here?
- multiple questions – many questions structured as interrogation
- judgement – why is this a failure?

Structure your questions:

- Be curious rather than demanding.
- Ask open questions.
- Ask one question at a time.
- Ask softly – gently and without arrogance.
- Expect to be questioned in return, as conversation is not an interrogation.
- Don't rush people to respond – give them time to think.
- Show you expect a response by waiting silently.

Requests from the chief executive to discuss operational matters

Operational decision making is the chief executive's responsibility. This is not to say the experience and expertise of individual directors shouldn't be available to the chief executive, but it is best for this to take place outside of board meetings. There may, however, be times when both the directors and the chief executive agree an operational issue is significant enough to set aside time at the board meeting for the chief executive to engage with the board as a whole.

These occasions should be rare and for the express purpose of offering advice or guidance to the chief executive, not to make decisions on their behalf. A time limit should be set for the discussion. As a general rule 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.

6 For example, Gino, F. 'When solving problems, think about what you could do, not what you should do'. *Harvard Business Review* (April 2018).

7 https://en.wikipedia.org/wiki/5_Whys

Common pitfalls in agenda design and meeting content

A number of traditional practices, like those described below, create inefficient and unproductive meetings.

Confirmation of the minutes

This should not be an opportunity to revisit earlier decisions. Keep this part of the meeting as brief and as formal as possible and consider doing it at the end of the meeting. Anything of note should have been highlighted in planning for the meeting and added to the main agenda.

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 and should not be included on the meeting agenda.

'For information' material

Distributing background information material (as part of the board meeting papers) that requires no board action or deliberation can distract the board from substantive issues. Some boards send an electronic 'for information' pack in between meetings. This may include relevant articles, background information and material related to operations, contributed by directors or management. This separates out contextual information from the board pack itself, which directors are obliged to read in full.

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 payments that have been made or reviewing the scheduled payments is not the board's business. Financial reports detailing forecast versus actual results should be provided, but other financial data can be made available to individual directors outside the board meeting if required.

Presentations irrelevant to governance

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

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

The board must make it clear to management what information it requires and in what form

Monitoring is at the heart of the board's job. 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. Since the board sets these criteria for a purpose in the first place – to protect and enhance the organisation on behalf of its owners/key stakeholders – it must then ensure its instructions have been followed.

But monitoring can be problematic for boards. Without 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 hinder a sound board-chief executive relationship and reduce overall governance effectiveness. Various factors can inhibit effective monitoring:

- The board may not have established 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.
- 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 their chief executive explicit instructions about what is to be reported and thus what will be monitored. This leaves the chief executive having to second-guess their board's requirements. Unsystematic reporting leads to unsystematic monitoring, which 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:

- The board must determine what results or actions it wants to monitor and capture these in policy as performance criteria to be met.
- 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.
- 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 their monitoring requirements clear to the chief executive 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 do this when they don't know enough about the work to be done or when the issues may be so technical that only specialist staff members understand them? 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 expected to be.

The role of the board is to govern the organisation, not to manage it, and so directors should be experts in governance not operations. However, to be able to apply governance skills a director needs a sound background of organisational knowledge. This knowledge may result from past or current experience in the organisation's business, but most commonly from reading, interpreting, questioning and monitoring the content of 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 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 find their monitoring role not only much easier to define and carry out, but also much more effective.

In monitoring compliance with policy, the board must ensure, and should require, that the data it receives from the chief executive is presented in a way that enables understanding and interpretation. Boards tend to address specific areas of operational risk by developing issue-specific policies (e.g. in the various areas of finances, personnel, protection of assets). We recommend also developing a policy that speaks directly to the board's own need 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

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

Many boards are fortunate to have 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 on 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.

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 the CEO accountable.

When a board has developed a policy framework that provides a clear set of performance expectations for the chief executive, it must allow the chief executive to exercise a reasonable interpretation of those policies. By this we mean a reasonable chief executive interpretation, not a reasonable board interpretation.

If the board has not been clear enough in its policy making – and 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 giving this freedom of interpretation to the chief executive, as it ultimately controls the policy which determines the extent of freedom. The board, then, is the ultimate controller; however, it must exercise that control in an ethical and fair manner. 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 it clear to the chief executive that this is going to happen 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 irrelevant information feeling that it must all be read, because the chief executive has presented it all. 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 for effective monitoring.

Lead measures

One of the challenges for plans that have a medium- or long-term outlook is understanding if we are on track. The organisation needs indicative or lead measures to gauge progress. Weight loss is a good example – losing 5 kilos may be the goal but the gap between calories consumed and calories expended is a very clear lead measure. Similarly, customer satisfaction with a given experience is a likely indicator of retention. An elite athlete heading to a pinnacle event will know in detail if recent training and performance have them 'in the frame' or not. As far as possible the board should be seeking lead measures to give the earliest possible indication of satisfactory progress toward stated goals.

What do 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 is to understand the board's expectations of the papers and reports, and the required writing and content standards. In some cases it may be necessary to educate the board, the chief executive and the staff on these standards.

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

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

Some organisations have a 'gatekeeper' who reviews material intended for the board. They check for structure and writing clarity and ensure the papers are set in a governance context. In short, is this material our best effort to support the work of the board?

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

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

Begin every report or board paper with a statement that is 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 exists, the writer should ask, *"Why am I writing this?"* The answer could be that the writer wants to tell the board about something they are doing that they want recognition for. Or it could be because the writer finds the matter interesting and thinks it might also be interesting to the board. Or the writer might want to alert the board to something they think should be documented in policy or in the strategic plan. In these cases the writer should give their reason for writing and provide the context for the issue to be presented. If there is no board context, the writer should stop writing and save both their own 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 individual directors' and the board's time, and that not all directors will have an intimate knowledge of the matters 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 be precise and brief 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 limit might seem arbitrary but it can be adjusted as experience is gained over time.

It is important for staff to understand that a well-formatted and presented paper will help directors absorb the content quickly. 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, for example, for information only, for a decision, or as background to a policy issue. If possible the paper should indicate which key result area it is addressing, and should end with either a recommendation or a very brief summary of the content (no more than about 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. Options and a recommended approach.

Brevity, simplicity and clarity

Papers for the board should be concise (including only essential information), coherent and logical, written as simply as possible in plain language, and not assuming the readers have expert knowledge, even if the board is made up of industry insiders. That doesn't mean talking down to the board, but the expression and language should make it easy to interpret accurately.

Inevitably some directors will be better informed than others about an issue or relevant past history. So 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, which can convey an impression of sloppiness and undermine confidence in the conclusions in the paper or report. Good proofreading is indispensable.

When what is reported and concluded lacks substance and reliability, there can be more far-reaching consequences.

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 and acronyms
- 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
- is accurate and free from basic spelling, punctuation and grammatical errors.

In terms of layout, the writer of 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
- number all pages, including the appendices
- use bold text for headings and a font size that is easy to read
- ensure there is plenty of 'white space' – avoiding cramming on the page.

The crucial role of the chair

Sue Suckling

The first question most independent directors will ask when considering a new board role is, *"Who is the chair?"* This is because the chair is critical in determining the effectiveness and efficiency of the governance function for an organisation. Being on a board with an ineffective chair is no fun and can also expose the other directors and the organisation to unacceptable risk and make it difficult for the executive to operate at their full potential.

The chair sets the tone and expectations for the board and ensures the board focuses on the right things. The chair's own values and self-awareness will impact bias, inclusion, and the organisation's outward focus on those it serves. This is critically important when we come to organisational culture and conduct. Culture has been referred to as the 'mindset' of the organisation, or 'what we do when no one is looking'. The organisation's culture starts at the top with the board and the board must lead and demonstrate the acceptable organisational values and conduct with its own culture. The board has the responsibility to ensure the organisation is underpinned by clear co-created and embedded values. It is the chair's responsibility to ensure these are consistent, fully owned and adhered to by the whole board through their own behaviours, actions and decision making.

A good chair is someone who is 'current' – current in terms of understanding technology, current in understanding and embracing the make-up of the workforce and their expectations (approximately 50% of the New Zealand workforce is now millennials), current in understanding stakeholders and the pressures and opportunities they have, and current in understanding segmentation, co-creation and design thinking, and business case development from a minimum viable product (MVP) point of view. For the sector this is someone who understands the sport and participants of today – not from the 'glory days' in the past.

The chair also has the role of holding fellow directors to account and ensuring they focus on the right things. I have had times where I have had to talk to my colleagues about their preparation, their time commitment, and the need to have them focus on governance and get their fingers out of the 'management pie'!

This can be hard for a new director who has only held executive positions before coming onto a board. Sometimes it involves coaching from the chair, or sending a director on appropriate training, to help maximise their ability to contribute and add value. The chair must also give emerging directors the support, space and confidence to contribute. This is very important as we look to succession and refresh for our New Zealand director cohort. It requires remembering we all once were on that first board and how that felt.

The critical roles for the board are hiring and supporting the chief executive, ensuring organisational purpose is clear, with strategy in place to deliver, and ensuring there is critical risk management. The chair has a key role to ensure a robust process is in place to get the right chief executive and, once they are hired, to make sure there is an appropriate performance framework to enable the entire board to support and manage the CEO. I would like to think this is a given but have been surprised to find that many boards do not have such a regime in place.

It is critical that a highly functional and accountable relationship exists between the board and the CEO and the chair is the key pivot point for this – ensuring functionality but enough professionalism and discipline to be able to challenge and guide the CEO. The relationship between the chair and CEO must be transparent and include the views of the whole board. There is no place for the chair and CEO to be too 'cosy'.

Purpose and strategy are vital, and their development and agreement are a partnership between the senior leadership team and the board. The chair has a leadership role on behalf of the board to ensure that a process is in place to develop this, resulting in clear organisational purpose, and that the strategy that is signed off is robust and supported by focused key performance indicators against which the board can monitor and support its execution. This isn't a once-a-year exercise but, in each agenda, strategy should be discussed to make sure it remains dynamic in the fast-changing world in which we operate.

Finally, let's talk efficiency. The time spent by the board needs to be focused on the right things – on governance not management. Agenda management and the quality and appropriateness of the deliberations absolutely fall directly on the shoulders of the chair. If someone is new to chairing a board, I strongly recommend they invest in training and even have a mentor to help them as they step into the role. There is nothing more frustrating than being in a meeting led by a poor chair.

Sue Suckling

Sue Suckling is a well-known and respected director, with much of her time spent in the role of chair. Her experience spans the public and private sector. Sue was involved in the major change programmes leading to reform in the governance of Rugby League, Swimming and Basketball. Her current chair roles include Zag Ltd, Jacobsen Pacific Ltd, Jade Software, Brannigans Ltd, and the IFSO complaint scheme. She is a director of Sky City Entertainment Group. Her many recognitions include an OBE for her contribution to business and an honorary doctorate in science from Lincoln University.

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, that is, 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 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
- board discussion is timely, fair, orderly and thorough, efficient, limited on time and kept relevant.

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

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

Meeting behaviour

Consensus

The board's goal is to reach policy decisions that 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
- be willing to commit their support to the policy decision even though it may not have been their first choice.

It is not always possible or desirable to obtain full consensus around the table. Having one or two dissenters is understandable but a board split down the middle likely indicates more work needs to be done on the issue. Regardless of any dissent, once the decision is made the board must speak with one voice outside the meeting room.

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, so conflicts should be resolved to create a positive climate.

Attendance and contribution

Board members should be expected to attend all meetings and events when the board is required. But attendance alone isn't enough. Individual board members add value to the board's performance and they 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 8, 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 as the board's primary consultant.

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

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

The Communications and Support to the Board policy in the sample board charter (in the online resources) 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 non-profit worlds there is a trend for boards to meet alone before the meeting proper starts. This is commonly known as 'board-only time' and has its origin in the company world where CEOs, CFOs and COOs are 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 large-scale corporate meltdowns earlier this century, particularly in the USA, it was considered 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 for directors to discuss the emphasis of the meeting to follow, allocate time to agenda items or 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 views on papers and reports, and ask questions of each other that they might feel inhibited to ask in front of senior staff.

There might also be circumstances that justify the exclusion of the chief executive where his or her presence may be inappropriate, inhibiting or embarrassing.

This could relate to:

- 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
- 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 can 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 be signalled in advance, if possible, and be conducted 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 these sessions should not make decisions but should be informal discussions subject to more formal procedure later, if required.

There are various ways sessions can be held informally – some boards have off-site meetings over a meal before a formal meeting is held or 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 and minutes should be observed. If the board-only session is intended to be confidential, minutes of the discussion should be kept and confirmed in a further closed session. The board may consider a partial 'declassification' of this meeting by briefing interested parties who were not present or by reporting its deliberations more generally.

These sessions should 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 being considered. To exclude the chief executive and staff from these deliberations denies them the chance to do their job. If board-only sessions are poorly handled, they 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 help the board 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 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 more detail on page 33.

Questions

Board meetings, agenda design and meeting content

- Is your agenda structured so you 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 you receiving relevant information in a usable format?
- Have you made it clear to management what information you require and in what form?
- Is material coming to the board in a way that permits good decision making?
- Is your debate open and inquiring or closed and combative?

References and further information

Online resources

Communications and Support to the Board policy (included in the board charter)

Decision making: processes, options and a sample decision paper

Director's letter of engagement (commitment letter)

Sample board papers:

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

Essential reading

Cochran, A C. *Roberta's Rules of Order: Sail through meetings for stellar results without the gavel.* San Francisco: Jossey-Bass, 2004.

Further reading

Susskind, L E and J L Cruikshank. *Breaking Robert's Rules: The new way to run your meeting, build consensus, and get results.* New York: Oxford University Press, 2006.

Short reads

Nahkies, G. 'To get more out of board meetings turn your agenda upside down!' (2016).

Nahkies, G. 'What COVID-19 has taught us about setting up board meetings that do the business'. (2020).

Step 4: Provide strategic leadership

> **The board's role is to invent the future, not mind the shop.**
>
> **John Carver**
>
> Author, academic and governance theorist

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 that 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 (including members, donors and funders)
- a basis for effective governance by keeping both board and staff focused on what's important
- a process for identifying and reconciling conflicting expectations
- a framework for monitoring and assuring performance accountability.

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

- 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 anti-planning or have 'bullied' the board into a particular stance on the future
- there is active resistance to looking forward because:
  - "if it ain't broke don't fix it"
  - "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
- the board is held back by the attitude and/or inexperience of its chief executive and staff.

Defining the main strategic challenges

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

It's 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
- decision-making pattern ensuring consistency in behaviour over time
- deliberate determination of which services or products to deliver in which markets
- 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
- cannot easily be dealt with within the normal business and operational planning and budgeting processes.

> **...most of what the majority of boards do either does not need to be done or is a waste of time when done by the board. Conversely, most of what boards need to do for strategic leadership is not done.**
>
> **John Carver**
>
> Author, academic and governance theorist

Without a map any road will do – boards and planning

Graeme Nahkies

Most boards we encounter would probably reject any suggestion that they are failing to plan. In terms of the time and effort they apply, that may well be true. Unfortunately, however, the output of the usual strategic planning process seldom delivers a product that supports effective governance.

Most strategic plans have little value as governance tools

Part of the problem is historical. Strategic plans have changed little since the concept of 'managing by objectives' was first advocated by Peter Drucker in his 1954 book, The Practice of Management. Drucker's ideas quickly became incorporated into standard management practice.

For a long time (at least until the global share market crash in the late 1980s) that didn't matter because boards didn't matter; management was in charge. Not surprisingly, therefore, most of the 'how-to' books on strategic planning pay little more than lip service to the role of the board. For the last 30 years, however, governing boards have been progressively recognised for their constitutional primacy over management and, rightly, held accountable for organisational – and management – performance. But in most organisations, the approach to strategic planning has continued as if that didn't matter. Not surprisingly, most strategic plans have little value as governance tools.

Let's have a closer look at some of the reasons why:

- The development of most strategic plans is via a 'bottom-up' bidding process. Despite the aspirational language cloaking most strategic plans, there is a high chance plans developed in this way will do little more than perpetuate the status quo. It is different when strategic planning is 'top-down', starting with fundamental questions about the purpose of an organisation and the worth of what it is achieving. Then boards and management alike are forced to confront the reality that many long-standing patterns of organisational activity, and the resources they consume, cannot be justified.
- The highest-level statement in a strategic plan is traditionally an aspirational 'vision statement' but this, in a practical sense, is often little more than a 'hallucination'. It is typically accompanied by a 'mission statement' that describes what the organisation does in such a way that everyone in it can continue to do the work that suits them. A strategic planning framework, to be useful, must start with a clear statement of why the organisation exists, what it must achieve and for whom. Then it becomes a vehicle for selecting between conflicting options and driving change. It helps decision-makers from top to bottom to make difficult choices about what really matters.

Most strategic plans put the cart before the horse

- At the next level in the plan, we typically find a series of 'goals and objectives'. It is usual to express these statements in terms of the actions to be undertaken rather than the results to be achieved. From a decision-making perspective, this puts the cart before the horse. It is logically impossible to choose one action over another unless, in the first place, it is clear what is the desired outcome. As the Cheshire Cat advised Alice 'in Wonderland', when the destination is not known, *"it doesn't matter which way you go"*.
- Board monitoring of activity-dominant strategic plans is difficult when the intended result or impact is not explicit. When the only reference point is the activity itself, monitoring beyond an assessment of intent and effort is seldom possible. In our evaluation of strategic plans, we are frequently drawn to conclude that they are little more than to-do lists that reflect good intentions and wishful thinking.
- The board's attention must focus on progress towards a minimal number of highly valuable outcomes.
- Many strategic plans contain so many goals and objectives that any sense of relative importance (and, therefore, priority) is missing. Relying on a strategic plan like this to track organisational performance diffuses the board's attention. Being pulled in many different directions at once, the board will find its time is taken up with 'business as usual'. Management and staff are left to fight among themselves for resources and influence. To be a motivating, directional force for organisational achievement, the board must focus its attention on progress towards a minimal number of highly valuable outcomes each of which is completely consistent with the organisation's purpose.
- When the plan consists primarily of proposed management initiatives, any serious attempt by the board to monitor strategic plan implementation will drag it down into operational detail. Like spectators at a sporting event, this invites the board to second-guess 'management' choices. In an organisational context, this has two undesirable side-effects. Firstly, the equivalent of side-line barracking by the board frustrates the heck out of management. Secondly, by directly or indirectly imposing its own preferences for action the board undermines its ability to hold management accountable for the outcomes that result.

None of these criticisms means that organisations do not need strategic plans. Organisations in one sense can do anything, but they can't do everything. Planning increases the chances at both the governance and the operational levels that an organisation will be more intentional about and more effective in the choices it makes.

In terms of board-level planning, too many boards are missing in action

Boards are not doing their job as directors. Before chief executives and management teams select the actions they will take, they are entitled to a board-provided mandate that clarifies what they are expected to achieve. The implication is that, ahead of any management-driven planning process, a board needs to develop an appropriate governance framework. This framework should define organisational purpose, desired outcomes and relative priorities. In this way the board will inform and validate management's strategic planning and create a basis for subsequent performance evaluation and accountability.

Graeme Nahkies

Graeme Nahkies is the Practice Leader and co-founder of BoardWorks, a specialist governance effectiveness consultancy established in 1997. After prior experience in a range of professional and senior executive positions, Graeme's primary focus for the last 25 years has been on governance effectiveness, both as a board member and as a governance consultant and educator. He has been closely involved with organisations in the sector for much of that time. He was the original author of the Nine Steps framework and continues to advise and teach across the sector.

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) accountable for organisational performance, the board must have done its own job of specifying what must be achieved.

Why do we exist?

This question sits at the heart of the governance conversation. It is helpful to frame the purpose statement as: *"Organisation X exists so that…"*.

Asking this question forces the organisation to assess the change it is trying to create in the world. The answer to the question will be framed as benefit it seeks to create for its defined community.

When expressed this way the governance role can then be described as:

The creation of the right benefits for the right people at the right worth

To periodically check understanding of the 'reason for being', the board, in conjunction with the chief executive and senior staff, should regularly address such questions as:

- Are we clear about our purpose?
- If this organisation didn't already exist why would someone have to create it?
- What's 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?
- Can we answer the 'right worth' question? That is, are we being cost efficient by creating maximum benefit with our available resources?
- Should we stop doing some things?
- What's the 'essence', ethos or spirit of this organisation?
- What's important to us?
- What do we stand for?
- Where does the organisation stand in terms of its desired achievements?
- What could we be doing or becoming?
- Would it be better to partner with another organisation?
- 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 translate these answers into more specific outcomes or key results to be achieved. Until there are answers to these questions, the effective monitoring and evaluation of performance is, at best, difficult.

Defining outcomes

The Policy Governance® model, on which this Nine Steps process is broadly based, 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 economic costs associated with providing that benefit, that is, the budget allocation and priorities? And what are the social costs? For example, 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 and participants, 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, that is, 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, for example, 'assist', 'produce', 'enhance', 'facilitate', 'coordinate'.
- Focus on the benefit and who is to receive it.
- Ensure the statement looks outward, beyond the 'walls' of the organisation; this isn't about what we will do but how someone else will be better off.
- Avoid wishful thinking and complex statements that rely on a range of other factors.
- 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 learnt to swim.

Alternatively:

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

This makes it clear what the result is and who the target to receive the benefit is, so 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 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 direction

This is the board's key external statement outlining why the organisation exists and the nature of the change it intends to make in the world. It is the central element of the board's Ends policies.

The language of strategic thinking and strategic planning is full of 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 the order is designed to provide a logical, cascading train of thought.

1. **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(ies). 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?"*
2. **Vision statement** – a statement of the ultimate future the board wishes the organisation to achieve.
3. **Values** – 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. These can be regarded as the high-level components of organisational culture. They help frame certain decisions; for example, some forms of investment may be inconsistent with organisational values.
4. **Key result areas (KRAs)** – the organisation's high-level, longer-term deliverables, which provide a framework for identifying the sets of outcomes the organisation wishes to achieve. 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. A focused high performance result is a common high-level outcome.
5. **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 statement.
6. **Performance measures** – measurements or milestones that the board must monitor to ensure it achieves key results and the organisation is on track. The chief executive should present these to the board and take the initiative to convince the board that they are being achieved. In reality, many key performance indicators will be operational performance measures.
7. **Resource allocation** – essential for each of the key results to ensure the results are achievable and the strategic framework is realistic (rather than simply an inventory of wishful thinking).

Strategic planning

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

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

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

Operational planning

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

Some boards will want to sign off or approve the operational plan. However, they 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 and it has now effectively become a board document.

The business plan is the chief executive's document not the board's, and it is not for the board to sign it off. That transfers ownership to the board.

It is best that the chief executive presents the operational plan to the board members and walks them through the various plans and objectives. This should include explaining the reasoning for the various tactics and approaches and that they are the best use of resource to achieve the required outcomes. This assures board members that sound planning has been undertaken, based on clear thinking. The plan is the operational response to the board's statement of intent, demonstrating the best possible use of resource to achieve the stated aims.

Provided the directors are comfortable that the plan is robust and is directed towards the achievement of the outcomes and KRAs, 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 then 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 Steps process, your facilitator must be 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, 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; it's like buying a car with only three wheels or without a steering wheel and expecting it to work.

Too many plans end up being of little use at either the governance or management level. They fail to be clear and specific about the desired change or discuss the challenges that lie between the current and future states. Internal competencies (leadership, advocacy, finances) are elevated to outcomes in their own right without an understanding of what those activities will lead to. Such plans draw the board downwards and into the busyness of management rather than up and into the achievement of external change (see page 84).

Legal and moral owners

In the non-profit sector the concept of 'ownership' is not commonly used. There are, however, those 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, and 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 non-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 non-profit organisations often define membership as being 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 or thousands of individuals. For example, Sport Northland sees every Northlander as being within its community.

Clearly, in their 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. These groups can be viewed as moral owners.

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.

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 helps the company do 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 portion of ownership of the company in which they hold shares.

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?"* are two examples. Good governance demands that stakeholder interests are identified and appropriate relationships established. Those to whom the board considers it is *primarily* accountable should attract the most attention and should be involved in planning direction and priorities. Some stakeholder relationships will not be in good shape and the board will want to understand how that can be changed.

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 sector 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 can 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 available online.

Being accountable

Sector organisations exist to create benefit for their defined communities. To achieve that, they seek and receive time and money from others. In the for-profit world, investors are keenly interested in the return on their funds. Sector organisations have an ethical imperative to inform their stakeholders of how resources have been applied, particularly as a good portion of those funds are from public sources. Good accountability means being clear ahead of time how resources are to be used and how success will be measured. External communication is then framed in that context.

It is important for the board to take an active role in demonstrating to stakeholders that time and money are being used responsibly and how progress against the plan is being assessed (see page 104 for a fuller discussion).

It is equally important for the board to set standards for its own performance and report on those. It is increasingly common to see a governance section in an annual report. This lays out basic information about the board, cost of governance, meeting attendance, approach to development, a register of interests, the approach to recruitment, the board's work plan for the year ahead and performance against the previous year's work plan. (See Step 7 for a fuller discussion of board performance.)

Doing good may no longer be good enough – the funder's perspective

Jennifer Gill

When you decide to come to a funder, we need you to demonstrate that you have done your homework about our policies and priorities. You must be able to articulate the change you are trying to make, show us why we should support you, let us know who else you have talked to, and tell us how we will know when you have been successful. And make sure that you have supplied us with all the information that we have asked for.

Aotearoa New Zealand is in a period of demographic and social transition. Philanthropy here and across the world is going through a period of rapid transformation as funders look to data both to inform the development of their funding strategies and then to measure the effectiveness and impact of their funding. Funders expect their grant recipients to be able to do the same.

At the same time, funders are experiencing:

- requests for funding that exceed the amount available, many times over
- requests for funding that take no account of the funder's strategy and areas of focus
- funding proposals that have no evidence base and cannot be evaluated
- applications for funding that are scrappy and incomplete
- projects that show no evidence of collaboration
- proposals that cannot demonstrate community need or demand.

The best advice I can give to any potential applicant to any fund is to sit down together as staff and board and plan out what you want to achieve as an organisation, and who you want to target, and then look at the resources you already have. Consider who else in your community is playing in the same space, and plan realistically for the outcomes you want to achieve, thinking all the time about what success will look like. If you are targeting an ethnic or low-income community who may not have participated in your activity before, have you consulted them? Do they want to become involved in the planning? What might they need that is different from your current members' needs?

If you are wanting to build a facility, think even more carefully. Does the community really need a new facility? What size and scale are appropriate for your community? Is there an existing facility that could be shared or repurposed? Can a single-use facility become a multi-use facility? Is there already a council-owned facility that could be accessed? Beyond the capital costs to build, what will be the ongoing operational costs and where will these come from?

Numbers of participants are 'outputs' and are of little interest

Funders are increasingly focused on the 'outcomes' of their funding – numbers of participants are 'outputs' and are of little interest. This requires applicants to be able to articulate clearly what will be achieved if the funding is granted; simply keeping the doors open will no longer be sufficient. There is no entitlement to charitable money and increasingly trustees are asking if applicant organisations 'really need' funding from us, or if the members can pay for clubroom upgrades, equipment or uniforms themselves.

Foundation North receives requests for more than twice the amount of funding available in every funding round.

Up to 50% of applications submitted are incomplete, lacking basic documentation, and need to be returned to the applicant before a decision.

Jennifer Gill

Jennifer Gill is an independent director and trustee. She was CEO of Foundation North, New Zealand's largest philanthropic funder, from 2004 to 2019. Before that she was the Executive Director of Fulbright New Zealand and began her career in philanthropy in the mid-1980s as CEO of the Roy McKenzie Foundation. She has had extensive involvement in the philanthropic and non-profit sectors. She is currently chair of the Auckland Tū Manawa Active Aotearoa fund, and is a trustee of the Prince's Trust New Zealand, the Vodafone New Zealand Foundation and Water Safety New Zealand. In 2020 she was appointed as the inaugural chair of the MAS Foundation. She was a founding member of the board of the Nikau Foundation, the Funding Information Service and Philanthropy New Zealand. She has served as both a trustee and chair of the J R McKenzie Trust. In 2017 Jenny was awarded an ONZM for her services to philanthropy.

Strategic risk management

Another important component of a board's strategic leadership role is the identification and oversight of risk and risk management.

Earthquakes and volcanic eruptions are major events that New Zealand understands and plans for. The impact of the COVID-19 virus is something that few organisations recognised and had any contingency for. That will no longer be the case. Learnings from this crisis will no doubt be built into future risk planning.

This section introduces the concept of strategic risk. For more detail and some useful tools, please refer to the standard Guidelines for Risk Management in Sport and Recreation SNZ HB 8669:2004. This has been developed with Sport NZ input and is available through Sport NZ or directly from Standards New Zealand.

There is also a Sport NZ risk management resource 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 identify potential barriers to success, and should regularly review the main strategic and operational risks facing the organisation.

Often the main focus of board-level risk analysis is on the organisation's financial position. But this is a 'cart before the horse' approach as an organisation's financial position is often a result 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 tendency to think of risk management 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.

Gains and losses

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 can handle risk effectively. These are to:

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

Countering losses

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

Reducing uncertainty

Access to relevant 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 putting the organisation in a better position to seize them.

Clarifying the board's responsibility for risk

Because of their public funding and profile, play, active recreation and sport 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 it has a good understanding of their probability and potential impact
- set the tone and influence the risk management culture within the organisation.

The challenge is neatly summed up in the following 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 are addressed, like *"Should the risk be spread by working with another organisation or transferred through the use of funder/sponsor underwriting or insurance?"*
- monitor the management of significant risks to reduce the likelihood of unwelcome surprises. For example, ask management to provide regular reports that focus on key performance and risk indicators, and supplement these with 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
- report annually to key stakeholders on the organisation's approach to risk management, and include 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 a framework for performance monitoring.

Health and safety

The Health and Safety at Work Act places clear obligations on directors, which is a significant change from the previous legislation. The primary duty holder is a 'person conducting a business or undertaking' (a PCBU). 'Person' means the entity conducting the business – most sector organisations are PCBUs. The Act imposes a duty on officers to exercise 'due diligence' to ensure the PCBU complies with its obligations. The definition of officer includes board members (of companies, incorporated societies, trusts), and other people who make decisions that affect the whole, or a substantial part of, the business or undertaking (e.g. a chief executive).

'Due diligence' is also defined and requires officers to take reasonable steps to ensure:

- they understand the PCBU's operations and associated hazards
- the PCBU has, and implements, appropriate health and safety processes
- these processes are sufficiently resourced and their use is monitored and verified.

As the Act came into force, many boards were anxious about the heightened accountability. Practical advice suggested that if an organisation was complying with health and safety requirements under the previous legislation it was likely to be aligned with the new Act. Boards should have already been vigilant in this area regardless of changing legislative imperative. In the play, active recreation and sport sector this includes all participants, and the need to ensure safety, equity and inclusion.

In short, the board is required to ensure all the necessary frameworks, policies and processes are in place, all employees and volunteers are aware of them and there is a culture of adherence to the required standards. Independent verification may be required to ensure the board's comfort across these areas. Health and safety should be a permanent part of the board's regular cycle of oversight.

In 2018 issues within elite sport reminded directors of their obligations under health and safety legislation, and employment legislation in general. Some of the many resources available to support boards with these matters are listed at the end of this chapter.

Questions

Strategic leadership

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

Stakeholder relations

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

Strategic risk management

- Does the board regularly (at least annually) and systematically review the risks facing the organisation?
- Has it clearly agreed and communicated the level of risk it is prepared to tolerate in relation to critical organisational performance factors?
- Does it have clear policies 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?
- Are you clear about your obligations under the Health and Safety at Work Act?
- Is health and safety a regular item on your agenda?

References and further information

Online resources

Sport New Zealand publications

Creating a Stakeholder Communications Plan

Planning in Sport

Risk Management of Events

Sport New Zealand Risk Management Guide

The Board's role in Strategic Planning

Other resources

Good Governance Practices Guideline for Managing Health and Safety Risks (Institute of Directors/WorkSafe NZ)

Health and Safety governance policy in the Sport NZ template board charter

Institute of Directors' online training module (Health and Safety Governance)

Sport NZ Integrity Framework and supporting resources

Statement of Strategic Direction: good practice sector examples

Essential reading

Fisman, R, R Khurana and E Martenson. 'Mission-driven governance'. *Stanford Social Innovation Review* 7, no. 3 (Summer 2009): 36–43.

Further reading

Lafley, A G and R L Martin. *Playing to Win: How strategy really works*. Boston: Harvard Business Review Press, 2013.

Rumelt, R. *Good Strategy/Bad Strategy: The difference and why it matters*. London: Profile Books, 2017.

Sinek, S. *Start With Why: How great leaders inspire everyone to take action*. New York: Portfolio, 2009.

Short reads

Nahkies, G. 'Why your current strategic plan is probably little use as a governance tool'. (2018).

Nahkies, G. 'Does your board have its head out of the boat? Or is it asleep at the wheel?' (2021).

Nahkies, G. 'Does your board want to be "more strategic"?' (2021).

Step 5: Employ and support a chief executive

> "The best leaders we've studied had a peculiar genius for seeing themselves as not all that important."
>
> **Jim Collins**
>
> Researcher, author and management consultant

Does the board really want a 'chief executive'?

The board-chief executive interrelationship is critical to governance success, and the appointment of the chief executive is arguably the single most important decision a board will make.

Assessing the board's stage of development

Some boards need to clarify whether it's a chief executive they want (or need) 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 non-profit sector.

Once a board has reached the stage where it can afford to hire its first executive officer, it should follow a logical sequence of decision making 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 and making it clear what authorities they can exercise (e.g. their financial delegations).

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.

Ensure unity of control

Some sports organisations unwittingly fragment control of their organisations through 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

Appointing a chief executive involves canvassing the field to attract the best person for the position. Affordability is often an issue and can result 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.

Increasingly it is apparent that the board must consider organisational culture during recruitment. The chief executive must fit with and be able to model the behaviours the board views as core to the organisation.

> "Leadership is a series of behaviors rather than a role for heroes."
>
> **Margaret Wheatley**
>
> Writer, teacher and management consultant

Suggested process steps

In seeking a new chief executive, a board should consider adopting a process that includes, or at least considers, the steps outlined below.

1. Developing an agreed description of the qualities of the preferred candidate

This involves creating a clear description of the type of person the board 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 give the board valuable insights into the type of leadership these two key groups require, and also a snapshot of the organisation's internal health. This process should be designed to increase these key stakeholders' sense of 'ownership' and support for the appointee. Facilitated focus group discussion involving representatives of staff and volunteers is one way to achieve this.

District/regional associations' and member organisations' perspectives – given the structure of many organisations in the sector, 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. The board requires relationship management skills and emotional maturity.

Board perspective – the whole board must take an active part in the recruitment process, starting with a thorough discussion defining the desired qualities sought in the new appointee, 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. This makes for 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.

2. 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 use 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 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 the committee can recommend a preferred candidate (or perhaps two) to the full board for final consideration.

Remember that a recruitment process should go beyond the easily distinguishable.

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.

3. Full board consideration

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.

4. Induction

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

Chief executive-board relationships

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

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

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

Important elements in an effective board-chief executive relationship

What sort of relationship is required?

A board has a huge stake in the success of its chief executive.

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 needed 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, the board 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 together as partners and colleagues. Some directors and chief executives find this difficult to accept.

Key elements of a successful relationship

1. Role clarity

Role clarity is an essential starting point for an effective relationship in an organisation. It is vital that the directors and chief executive understand and respect each other's role and responsibilities, 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.

Directors would be likely to expect the chief executive to:

- achieve desired results
- be loyal
- show respect for the experience, independence and wisdom of directors
- be honest and open
- assist with strategic and other board-level thinking
- treat directors as a collective group, not singled out and set against each other
- tell them what a governing board needs to know in order to meet its duty of care obligations
- keep them abreast of critical strategic issues and events that could impact on the organisation's ability to achieve its desired results
- feel proud of their association with the board and the organisation.

The chief executive would typically expect directors to:

- clearly state outcomes to be delivered
- clearly define boundaries of authority
- speak with one consistent voice
- allow them to manage, free from undue interference by the board or individual directors
- give support for worthy effort
- give recognition for achievement and the occasional thank-you
- be honest and open
- provide wisdom and advice, and a sounding board when requested
- show a genuine commitment to the organisation and an honest effort to understand the business and its issues
- undertake thorough pre-meeting preparation, attend all meetings and workshops and give regular, honest performance feedback
- demonstrate 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. The chief executive should not be left to guess the 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 having 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 (notably the ends or outcomes stated in the strategic plan) 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 a sound working relationship between the chief executive and the chair – but not at the expense of the chief executive's relationship with the full board. It can be helpful to have the nature of the relationship set down within the policy framework.

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 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's two primary roles at board meetings are helping the board:

- understand and address the future by providing advice and support to the board's dialogue and decision making
- analyse and understand the past and provide evidence that everything within the organisation is as it ought to be.

The board needs to be kept informed about risks to the organisation, 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 and charged the chief executive with ensuring it 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. The chief executive's report at each meeting should note any changes in the operating environment or variations to the risk profile.

A sample risk register is included in the online resources.

Define and delegate – when 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 fully 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 their 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 role of the chief executive, who cannot then be held accountable for the results.

Chief executives don't want to continually seek their board's endorsement for operational initiatives but are often uncertain 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

It is unwise for a board to 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 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

Three common ways boards document their delegation to their chief executive are:

- specifying what they want the 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
- making clear what they don't want the chief executive to do. This might be thought of as a 'No' approach and is used in Carver's Policy Governance® model, in which it is termed an Executive Limitation policy
- stating a raft of matters that 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 to make a judgement call and risk breaching the board's unstated policy.

The alternative is to play safe and seek permission from the board 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 they should be making.

The second shortcoming is the opposite problem; that is, a prescriptive list can be never-ending. This leaves little room for the chief executive to exercise their judgement.

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 and establish boundaries around these for their chief executives. The chief executive will have complete operational freedom within these boundaries. This is more empowering for a chief executive than a 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 take the proscriptive approach. There is also a short description of how to use this approach to the best effect.

The main advantages of this approach are that:

- the board has better focus, clarity and more effective overall control
- lay board members can contribute more effectively because this approach does not require them to try and tell the chief executive how to do their job
- clear boundaries confirm 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
- board agendas become less cluttered by the chief executive seeking permission to do their job.

3. The powers reserved approach

In this approach the board states which powers or decisions it reserves to itself and so are not within the chief executive's prerogative. This approach is similar to the limitations or 'Don't' 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. So it provides the chief executive with much greater freedom than in 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 and read the Delegation policies from the online resources.

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) begins 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

As the board's principal officer, the board holds the Chief Executive accountable for ensuring that neither he/she or any organisational employees 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."

If the policies to follow miss a point or fail to fully articulate a particular board expectation, this overarching catch-all statement provides 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
- public affairs.

In each case the sample limitation policy covers basic matters that the majority of board members wish to address. Before adopting these policies, 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 suggest that since the chief executive is employed by the board as a whole, not by the chair alone, they should be accountable to the entire body – with no independent relationship between these two key figures. The reality is that not many chief executives, boards or chairs share this view. 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.

The purpose of the relationship

Chairs and chief executives often meet outside the boardroom to keep the chair 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 from the same song sheet' in public – then it is essential that the two leaders are 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.

Frequency of communication

Many chief executives and their chairs meet weekly or more, but under normal circumstances this should not be necessary. A competent chief executive, properly empowered via sound delegation policies, should not need to meet regularly with any member of the board 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:

"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:

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

Evaluating the chief executive's performance

The board is deeply invested in helping the chief executive be as successful as possible.

A desirable approach

Effective chief executive performance management by a board is critical.

The sample CEO Performance Assessment policy in the online policies makes it clear that the chief executive's performance is assessed only against those matters that the board has charged the CEO 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).
- In doing so, remain within 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 needed 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, but often these 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. The board will test the chief executive's ongoing alignment with organisational culture and how they model it within the organisation. That may involve obtaining an external (e.g. stakeholder) perspective from time to time.
6. While the initial assessment of effectiveness might be delegated to a board subcommittee, the final responsibility for the performance assessment belongs with the board *as a whole*.
7. 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 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 of 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 derive from the existing plans and include strategic outcomes and key results from the delegation policies.

2. Performance monitoring

Rushed, and late, annual reviews by the board can be heavily influenced by recent events, so 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 and the timing should be in accordance with a board-approved monitoring schedule. When the chief executive reports to the board on organisational achievement, the whole board can be involved in a timely review process.

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

A final, formal, end-of-year 'wrap-up' review is common.

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. A committee of the board, often led by the deputy chair, may guide the process. This separates the chair's working relationship with the chief executive from leadership of the performance process. But any process should ensure that all directors contribute to the review.

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, may be more damaging. The use of 360-degree surveys should be considered.

4. Ensuring expectations are up to date

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

5. Remuneration review

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. If the remuneration is inconsistent with acceptable benchmarks, the board will have either a dissatisfied chief executive (if it's below the market rate) or dissatisfied stakeholders (if it's above market).

While many approaches to rewarding performance seem attractive to both parties, they 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 salaries in the sector that is available to the organisations that contribute to the data. This includes benchmark data for chief executive salaries.

There are ways other than salary changes to acknowledge performance. These can include additional or special leave, significant development opportunities or a sabbatical following a long period of service to the organisation.

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 create factions within the board, as well as intra-board conflict. It can also be expensive financially and lead 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, and perhaps even their livelihood.

Major 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 and often lies in having 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, but once tension is evident it needs to be addressed and resolved. It may be rooted in misunderstanding or it may be that either the chief executive or the board requires professional development to understand and perform their roles more effectively. Unbiased, external assistance is often the best option. If positions are irreconcilable and the working relationship should be terminated, the matter needs to be handled quickly and professionally.

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 ensure, as far as possible, that the person appointed will be successful?
- Has the board discussed what is needed for a cultural fit?

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 the chief executive's expectations?

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 chair-chief executive relationship in good shape? How does the board know?
- Does the board have a clear set of delegations and are both parties familiar with them?
- Are they up to date, for example, addressing the board's current 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 the chief executive?
- Is that ideal documented so that it can be used as a reference point?

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 (e.g. an employment contract and outcomes-based performance agreement)?
- Does it regularly (at least annually) document its expectations for the performance of the chief executive?
- Does it actively monitor and provide regular, constructive feedback on chief executive performance?
- Is that process documented?
- Is it confident the chief executive is leading and modelling the desired organisational culture?
- 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?

References and further information

Online resources

Chief executive performance agreement

Define delegate and empower your CEO

Delegations and limitation policies (included in board charter)

Letter of expectations to the incoming chief executive

Risk register

Terms of reference for a chief executive review committee

Essential reading

Dotlich, D L and P C Cairo. *Why CEOs Fail: The 11 behaviors that can derail your climb to the top – and how to manage them*. San Francisco: Jossey-Bass, 2003.

Wackerle, F W. *The Right CEO: Straight talk about making tough CEO selection decisions*. San Francisco: Jossey-Bass, 2001.

Further reading

Bennis, W and J O'Toole. 'Don't hire the wrong CEO'. *Harvard Business Review* 78, no. 3 (May-June 2000): 171–6.

Short reads

Nahkies, G. 'Six ways boards undermine their chief executives' accountability'. (2018).

Nahkies, G. 'Is it time to intervene - has your "pitcher been in the game too long"?' (2020).

Nahkies, G. 'Chief executives under stress'. (2010, updated 2021).

Step 6: Measure and monitor the right things

> **"If you can't measure it you can't improve it."**
>
> **Peter Drucker**
>
> Management consultant, educator and author

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.
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.

Moving the dial?

One simple way for the board to consider progress is to ask the question, *"Are we moving the dial?"* This assumes we know which dial(s) we should be looking at, how it is calibrated, the starting point and the desired range of movement.

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 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, primarily to improve future performance, and 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, have clear instructions about what they should achieve and what they can and cannot do in the process of achieving. By creating the policies 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 help them manage the organisation to the satisfaction of the board, there is a specific policy that addresses board monitoring: the Communication and Support to the Board policy (available in the online resource sample board charter and policies) makes clear what the chief executive should not fail to report or keep the board informed on. 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, they are free to inform the board about all other matters they consider 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' – 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'; but there should not be a blanket rule against addressing the 'how' or means. There may well be times when the chief executive needs to discuss operational matters to help directors understand the implications of one of their strategic statements. Care should be taken, however, to ensure board time is not wasted on lengthy discussions about operational matters. Once a context is established or clarification is achieved, the board can get back to its governing role, focusing forward and on outcomes.

> **"If the board hasn't said how it ought to be, it shouldn't ask how it is."**
>
> **John Carver**
>
> Author, academic and governance theorist

Telling your story – accountability in the non-profit world

Craig Fisher

Running an organisation on historical financial information only is like trying to drive by looking in the rear-vision mirror.

Accountability and transparency are increasingly recognised as essential in the non-profit world. To be successful and sustainable, organisations need to build and retain the trust, confidence and support of their stakeholders.

Most non-profit organisations are also stewards of other people's money – their members, their donors, their sponsors and even the wider community they exist to serve. Many of these stakeholders will have a passionate interest in play, active recreation and sport. But passion can be a double-edged sword. It can turn very negative very quickly if there is a lack of information and a lack of clarity, and suspicions are allowed to fill the void.

Luca Pacioli, the man recognised as the father of accounting, was on to this concept when he wrote in Venice in 1494 that *"frequent accounting makes for long friendship"*. He said this to reinforce his suggestion that financial books should be closed annually.

Fast forward to Aotearoa New Zealand in 2021 and best practice accountability reporting is beginning to be defined by what New Zealand charities are now required by law to report. All charities need to prepare annual performance reports including their financial statements. But more than just historical financial reporting, charities are required to report first on some fundamental questions to give interested stakeholders some background.

- Who are they and why do they exist?
- What did they set out to achieve (change in the world) and what have they actually achieved?

Having these important questions upfront helps a reader understand and contextualise the financial information that the charity is also required to provide, including:

- What did it cost to run their operation?
- Where did they get their money from?
- What assets and liabilities do they have?

The required information is specified by the Public Benefit Entity (PBE) standards of the External Reporting Board (XRB). The XRB is an independent Crown entity and New Zealand's financial reporting standard setter. This ensures a common approach and hence common or general understandability, as well as comparability between entities. However, there are differing tiers of accounting standards to be followed appropriate to the size and complexity of the organisation. A pragmatic 'horses for courses' approach.

This new, extended or more 'holistic' style of reporting is largely a response to the failures of just reporting historical financial information. While historical financial information is certainly important, from a governance and direction perspective it can be like trying to drive a car by looking in the rear-view mirror. Not recommended as a very safe strategy!

The more holistic reporting approach also helps organisations and their stakeholders to focus on the truly important and strategic things rather than just what is in front of them. In the past far too many organisations' AGMs fell victim to inane questions being raised about why something like the telephone expenses or the auditor's fee had increased from the past year, because that was what was put in front of people in the historical financial statements. Yet those historical financial statements did not draw people's attention to the vitally important strategic issues like declining event delivery or falling membership – things that may influence the very existence of the organisation.

Good governance requires a focus on the right things, at the right level, and at the right time. Presenting a more holistic picture of an organisation, why it exists, what it sets out to deliver, and what it actually does deliver, helps direct focus on the right things. New Zealand's XRB has been world leading in requiring certain entities to present this extra performance information.

The new performance reporting requirements also help promote joined-up thinking. Done well, external reporting can just be a summary of internal performance reporting that any board should be requiring in order to monitor their progress against their strategy and reason for being. Good governance requires answering the fundamental accountability questions: How are we going and how do we know? Performance reporting done well should answer this.

While still early days, increasingly there is very positive response to this new reporting from stakeholders, especially funders, as it links an organisation's purpose to its delivery and its financial implications.

One challenge already being faced is the auditing of this additional information for organisations that have to be audited. There need to be reliable systems to record the performance information that can withstand the independent scrutiny of audit. If your organisation is reporting, say, how many events and how many attendees, there need to be systems to allow independent verification of this. This can be especially interesting when some of the performance information being presented is non-financial and even non-numeric. However, it is a challenge worth grappling with if the result is better and more useful information for all stakeholders, and to help enable good governance.

Craig Fisher

Craig Fisher FCA is a consultant with RSM, chair of the RSM New Zealand Group (up to 2018) and an Associate of BoardWorks Aotearoa. Craig specialises in governance, audit and assurance advice, and assists with restructuring, growing and developing organisations. Craig holds a number of governance roles including chair of the Fred Hollows Foundation New Zealand, a trustee of Sustainable Coastlines Charitable Trust, an independent Councillor of Auckland District Law Society and independent chairman of Ngāti Whātua Ōrākei Trust's Risk Assurance and Audit Committee, as well as a variety of advisory roles.

Performance measures

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

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

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

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

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

Some common errors

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

- **reliance on feelings** – assessment should be based on demonstrated evidence not emotions
- **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
- **misuse of verbs** – verbs like 'promote', 'coordinate' and 'facilitate' direct 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
- **use of comparative words** – 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"*
- **failure to be exact** – it is even better if there is more specificity, for example, *"achieve a 15% increase in funding from non-governmental sources compared to the 2003/04 base year"*
- **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 about 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 needs to:

Periodically:

- Get out of the organisation
- Check the wider environment

Regularly:

- Confirm its strategic challenges (and associated assumptions) are still current and correct.

Get out of the organisation

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 help provide the necessary perspective for regular sense checking.

Check the wider environment

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. The board should use it regularly to analyse its operating environment and the continuing relevance of its purpose, strategic outcomes and key results. When they have 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 within which most organisations operate – Social, Technological, Trade, Economic, Physical and Political. 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.

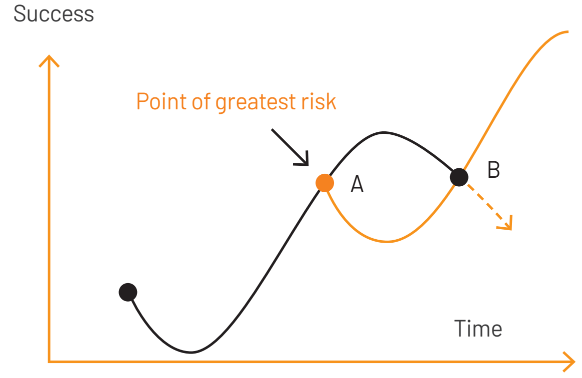
Where are we on the curve?

Social philosopher and organisational behaviour expert Charles Handy has described how organisations have a natural 'wax and wane' cycle. Handy uses the 'Sigmoid Curve' to show how organisations develop and then decline if they do not reinvent themselves. He considers that 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 and urgent awareness of the need for change. But by then it may be too late – resources are depleted, energy is low, and existing leaders are discredited.

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

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



Sigmoid Curve

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 resources, alignment with mission and alignment with values. 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. The point where the two marks intersect represents where the programme or service is currently placed on the matrix.

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 it 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.

	Most capable	Least capable
High demand	Good Fit Exploit these offerings while 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 the resource base 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

Mission fit-profitability matrix

One way of assessing the portfolio of service offerings is to analyse them based on fit with mission and the cost. The Impact axis denotes the impact or contribution made to the organisation's purpose or mission (how much change it is generating) and Profitability is the net profit or level of subsidy required.

The strategic approach for Stop Signs is to close them or give them away to another organisation. It's not that these activities are useless, but they may be taking more resources than they warrant.

It is far easier to shed cost than to keep seeking revenue for activities of low impact. Going through the services and programmes portfolio and placing them on this matrix is a highly useful exercise to undertake on a regular basis.

Stars

Invest attention and resource

Grow if possible

High performing services require ongoing attention and should not come second to a focus on problem areas. They need time, attention and financial resources for growth to take place. When choosing which areas to develop, the first (but not the only) choices must be the highest impact, most financially viable programmes and activities.

Hearts

Keep and celebrate

Contain costs

We want Hearts, but we can't allow them to drag the organisation down. Every programme or service needs a limit on how much cross-subsidy it receives. The temptation may be simply to raise more money, but this is a significant opportunity cost issue. The strategic imperative for Hearts is to keep them, but to contain their costs, which may mean reducing the level of service or limiting the number of people who can be served.

Money Trees

Keep watering

Increase impact

Money Trees require care and attention to stay fresh, stay healthy, and grow. The strategic imperative is to keep it, nurture it, and increase its impact.

Money Trees can be prone to limited thinking, focusing on just the amount of money generated.

A strategic perspective reminds us we should also look at them as a way of increasing our impact. Money Trees create awareness and at a minimum provide an opportunity to educate audiences about the importance of organisational mission.

Stop Signs

Close or give away

Most organisations have activities that not only lose money but are also low impact. They consume time and energy. They are often reworked, yet again; the marketing is tweaked or another funding source is sought.

> **"The supreme act of warfare is to subdue the enemy without fighting. Use strategy to bend others without coming to conflict. He who can look into the future and discern conditions that are not yet manifest will never make a blunder and therefore invariably win. He who only sees the obvious wins his battles with difficulty; he who looks below the surface of things wins with ease."**
>
> **Sun Tzu**
>
> Chinese philosopher and strategist

Scenarios

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 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 everyone understands what is meant by the phrases on the flipchart.
- Arrange the ideas into logical groupings.
- Debate their significance.
- Rank them in order of significance.
- Decide what action to take.

Four trends shaping the future

Robert Hickson

There are many trends affecting society and the economy. The challenge is always to decide which are important, and the likely consequences. Four trends that have particular significance for the sector are the:

- increasing competition for leisure time
- increasing individualism
- pursuit of wellbeing and identity
- changing nature of business and governance.

In addition, while not strictly a trend, technology is a significant driver of change. This is seen through the increasing digitalisation and automation of work and social life, changing the nature of both work and social interactions.

These trends can't be viewed in isolation but influence each other; nor are they linear, but ebb, flow and meander.

Three meta trends influencing demand

Increasing competition for leisure time

Overall, people are becoming less active. This is due in part to ongoing urbanisation, the digitalisation of commercial and social life, and increasing demands on free time and discretionary spending. These can all create barriers for physical activity, but also opportunities if urban design and digital technologies can be used to help motivate some to become more active.

Increasing individualism

Changing lifestyles and technologies are influencing the demand for the various types of play, active recreation and sporting opportunities, and where, when and how they are provided. This is resulting in a shift toward more individual and personalised physical activities. Many people are now seen as 'consuming' sport and fitness-related activities rather than being dependable participants in traditional sector clubs. There is a growing market for home-based fitness routines enabled by technologies, with gyms having to continually refresh and refine their offerings and environments to remain viable.

Pursuit of wellbeing and identity

Demographic and other social changes are placing greater emphasis on a more holistic view of 'wellbeing', with play, active recreation and sport now being seen as a means to an end, addressing broader health and social outcomes, such as physical and mental health and social cohesion. With the world going through a period of rapid change, and some older norms and institutions declining, there is also a growing interest in finding meaning, identity and a sense of belonging. This is potentially an opportunity for the sector if it can adapt in response.

One meta trend influencing the supply side

Changing nature of business and governance

Sport is increasingly becoming professionalised and commercialised. This, together with an aging workforce and declining rates of organised team participation for some sports, means that traditional sports club models are unlikely to be sustainable. In addition, the need to be seen as providing a duty of care to participants is an increasingly important governance issue. The increasing focus on equity, integrity and inclusiveness, the growing competition for talent and the disruptive nature of technology all contribute to the challenges faced by management and governance within sector organisations.

Identifying and understanding the trends affecting your organisation are the first steps to being better prepared and positioned for change.

Robert Hickson

Dr Robert Hickson is a futures thinker and strategist. Originally an evolutionary biologist, he has transferred his skills in identifying signals and trends from the past into making meaning from what's going on in the current world. He is the Director of Day One Futures (https://www.dayonefutures.nz). Robert has worked in a range of government agencies, and as a consultant, in strategy, foresight, risk and planning roles. He previously led the Futurewatch programme in the former Ministry of Research, Science and Technology. In 2018 he helped Sport NZ develop its new strategy. Robert writes a blog about futures thinking called 'Ariadne', hosted by Sciblogs NZ (https://sciblogs.co.nz/ariadne/).

Challenges in the environment

Hamish McEwen

An uneven playing field

People accessing their physical recreation needs through the current system have varied consumer experiences.

The happy/more satisfied club members are those that are older, European, administering and/or participating at a higher level (e.g. in top teams).

Often the focus is overtly on producing top teams and skewing resources to that end. This is negatively impacting the experience of others and is likely to be a deterrent to participation.

Being fair and providing equal opportunities is a critical driver of experience for members, both current and potential.

Not working for everyone – gender and equality

There are inequalities across the system: play, active recreation and sport.

Fundamentally, the wider system is not accessible to all people living in Aotearoa New Zealand, with females, non-Europeans, and lower-socioeconomic communities being less active and less engaged, and as a consequence deriving fewer wellbeing and health benefits.

Challenges within schooling

There are gaps in the provision of play, active recreation and sport opportunities in New Zealand schools for many children and young people.

New research is showing a significant percentage of children and young people in our schools are doing *zero* physical activity at school (14% at primary, 8% at intermediate, 19% at secondary). These percentages are higher for children and young people in high deprivation areas.

The physical environment

New Zealanders living in our major cities are less active than those living in smaller cities and rural areas (5% more active in rural areas, and 9% in small urban areas).

As the population of our cities continues to expand, we expect that greater pressure will be placed on the assets and resources in those cities, and that transport will continue to be a significant barrier to accessing opportunities to participate.

The development of the urban environment, roading, and transport networks is a paramount consideration for the overall activity of New Zealanders.

Sporting-specific infrastructure is facing three major challenges in our cities, two in the short term, the third in the medium to long term:

Short term

- Infrastructure must be located so that it is accessible to the greatest percentage of the population – location and access to the transport network are crucial factors.
- The cost pressure of land in our major cities is forcing councils to consider whether to release recreation space for housing, and/or to ensure that facilities are flexible (i.e. multi-use) to support the wider interests of the population.

Medium/long term

- Councils are facing two critical cost pressures relating to infrastructure. First is the current age of much of the three-waters infrastructure across New Zealand (i.e. drinking water, waste water and storm water). Much of this infrastructure is reaching the end of its life. Compounding this are aspects of climate change, in terms of both frequency of major weather events and sea level rises. The focus on this infrastructure will impact available funding for sport and physical activity infrastructure.

Sector facilities will continue moving towards multi-use and broader community access. Both the facilities and offerings associated with them will need to adapt to the changing patterns of consumption.

Hamish McEwen

Hamish McEwen manages the Intelligence Team at Sport NZ, which leads a national research, insights, evaluation and analytics programme to understand the physical activity behaviours of New Zealanders. In this role, Hamish led the development of Sport NZ's Outcomes Framework, which demonstrates how physical activity (play, active recreation and sport) aligns with and contributes to the New Zealand Government's Living Standards Framework and wellbeing approach. The Sport NZ Outcomes Framework sits at the heart of Sport NZ's Strategic Direction 2020-2032. Hamish joined Sport NZ in October 2014 and has led the development of its intelligence function. Before joining Sport NZ he worked in a variety of private sector strategy, marketing and business development roles in New Zealand and internationally.

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?
- Are we moving the dial and how do we know?

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?

References and further information

Online resources

Communication and Support to the Board policy (in board charter)

Decision making: includes material on the Six Thinking Hats and other evaluation methods

Planning in Sport

Sample reporting against the strategic plan

True to Label? Measuring value in the non-profit sector in Aotearoa New Zealand

Essential reading

Carver, J and M M Carver. *Reinventing Your Board: A step-by-step guide to implementing policy governance*. Rev ed. San Francisco: Jossey-Bass, 2006.

Further reading

Muller, J Z. *The Tyranny of Metrics*. Princeton, NJ: Princeton University Press, 2018.

Short reads

Nahkies, G. 'Policy making: does your board put the cart before the horse?' (2013).

Nahkies, G. 'Performance measures: are they more trouble than they are worth?' (2013).

Nahkies, G. 'What is wrong with a typical risk register?' (2021).

Step 7: Review the board's performance

> **An organization's ability to learn, and translate that learning into action rapidly, is the ultimate competitive advantage.**
>
> **Jack Welch**
>
> Chairman and CEO of General Electric, 1981-2001

The board should set standards for its own performance

A governance effectiveness review is designed to serve several key purposes. The process:

- offers directors the opportunity to hold a mirror to their own practices and processes, and to identify matters that require attention
- facilitates greater openness about the importance of good governance
- compels directors to examine their strategic responsibilities, their decision-making processes and stakeholder relationships
- encourages directors to talk openly about their various views of the board's performance
- closes the loop in the organisation's performance measurement circle
- provides, through peer and self-assessment, an otherwise hidden snapshot of shared opinions about the contributions made by individual directors
- develops a benchmark against which future board performance reviews can be set
- 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
- is an aid to succession planning
- identifies areas where directors could enhance their personal contribution
- is an expression of accountability to stakeholders.

Typical reasons for resistance to board evaluation

The concept of 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 reviews of governance efficacy, others actively reject it. There are many reasons or excuses for this resistance.

We are subject to re-election

In a broad sense it is true that members will determine whether a board is doing a good job. 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 have any real utility.

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 team in any setting 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, some have commented that directors should not be expected to perform to the same standards as paid counterparts in other types of organisations – their contribution should be accepted without judgement or assessment. But accepting this view would undermine the board's position of trust. No one should, or is likely to, join a board anticipating that they will give anything less than their best. It would be rare to find a person who has volunteered on the basis of mediocre performance.

Performance evaluation is not appropriate for 'eminent' directors

It has been said that 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 suggestion of a review is somewhat insulting and disrespectful. However, a board of eminent or expert individuals does not guarantee collective efficacy. A review looks at how such people work as a group. A board needs to be an expert team not a team of experts. 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?

Historically, board evaluation processes have been based on a process of self-assessment, with directors usually completing a board review questionnaire. The results of this are collated, analysed, compiled and used as the basis for a collective discussion. Ideally, evaluation processes should be conducted on behalf of the board by an independent and external third party. They 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 video 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. The Governance Mark process requires review every three years to retain the Mark.
In the intervening years the board can consider a review of individual directors including the chair. The board can also use shorter 'check-up' assessments. These might focus on the development goals established for the board and individual directors with sign-offs noting improvements and fine-tuning needed for 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-assessment and feedback

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 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 online governance assessment system is available at https://snz.directorevaluation.com/. The system has a number of modules: whole of board, individual director, chair, management's view of the board and nine quick questions. There is no cost to the sector to use the system.

To get full value from the system, it is a good idea to have a third-party expert in governance discuss the results with the board and help create a development plan.

Governance Mark assessment

The whole-of-board assessment module in the online system is now aligned with the Governance Framework for Play, Active Recreation and Sport in New Zealand (see page 15). Using a Sport NZ-accredited assessor it is possible to go through a governance assessment and development process that results in the award of the Governance Mark (see page 18 for further detail). It is important to view this as a development process and not an audit. It typically takes 12 to 24 months to work through the findings and can require significant change in how the board approaches its work.

Policy-based evaluation

Whatever process is used for performance reflection, the board should have its own *prior* agreements about its operating practices and values (Step 1). This is the same principle the board applies to evaluating its chief executive. While tools such as the Sport NZ system make a thorough review of the board's practices and processes possible, there may still be other things that are unique to the individual board.

Ultimately, a board should have a clear job description and agreement on performance standards. It should be reflecting on its performance regularly, not just during a triennial assessment. Including a governance statement in the annual report will help maintain that focus. Spending a few reflective minutes at the end of each meeting keeps the discussion alive: *"Did we do good work today?" "Did we get everything done we needed to do?"*

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.

External accountability

The board is a subset of the organisation's owners and so should provide a level of accountability back to that community. This is different and separate from organisational performance. It assumes that the board has defined its own work and is able to report externally on how it has performed during the year. It is increasingly common to see a governance section in the annual report. This may include:

- a listing of directors, with short biographies
- directors' attendance record at board and committee meetings
- the conflict of interest register
- the cost of governance including any remuneration
- commentary against the board's work plan for the past year and outline for the coming year
- the approach to director recruitment, including the diversity policy
- the approach to assessment and development, including any initiatives undertaken in the past year.

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 on a regular basis?
- If not, has it at least articulated the reasons why not and considered those objectively?
- Has the board considered using the Sport NZ online system?
- Does the board report externally on its own performance?
- 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?
- Does the present composition of the board have the range of competencies and experience needed to provide the standard of governance the organisation requires?

Developing the chair

- What leadership style is adopted by the chair?
- Does that get the best out of the board and the chief executive?
- Has the board explicitly set out its expectations of the chair?
- Does the board get a regular opportunity to provide feedback to the chair on their effectiveness?
- What would the board like to see more of from its chair?
- What does the board wish the chair would do differently?
- What actions does the board take that help or hinder the chair?

References and further information

Online resources

Board charter and policies including board assessment and development policies

Sport New Zealand governance assessment tool https://snz.directorevaluation.com/

Essential reading

BoardSource. 'Six signs it's time to assess your board's performance'. 2018.

PwC/SpencerStuart. 'Beyond "check the box": getting real value from board assessments'. PwC Governance Insights Center, 2017.

Further reading

White, P. 'Getting the most out of a board assessment to improve board effectiveness'. *Ethical Boardroom* (26 March 2014).

Short reads

Kilmister, T and G Nahkies. 'Putting the board to the 10 minute test'. *Good Governance* 39 (May-June 2004).

Nahkies, G. 'Do you and your fellow board members hold yourselves accountable or are you "just volunteers"?' (2020).

Nahkies, G. 'A field guide to bad directors'. (2021).

Step 8: Get the right people on board

> "Find the smartest people you can and surround yourself with them."
>
> **Marissa Mayer**
>
> President and CEO of Yahoo!, 2012-2017

Key principles

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

Governance writer Ram Charan calls the process *"stacking the board with talent"*. Leighton and Thain describe director *"competency requirements"*, and 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 of the skills and attributes required for directorship. The board's job is a thinking and talking one, and strong conceptual skills are vital. Directorship demands clarity of thought and an ability to cut through complex issues to get to their essence.

Core directorial skills

Strategic thinking

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"*, and 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.

Understanding of organisational structures and systems

A director should not be required to have the skills to run the organisation but 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 oversight

Directorship may require only a general understanding of business and organisational life, but all directors must 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 have a meaningful discussion about the current financial position, risk and future financial requirements.

Knowledge of the business of the organisation

Not every director will arrive with deep knowledge about the business. But they should move to quickly fill gaps, assisted by the board as a whole. New director induction will assist this process but every director must accept a personal responsibility to remain up to date with relevant knowledge so this can be applied in the board's strategic decision making and performance monitoring. That knowledge will include clarity on the relevant areas of legislation and how they apply to the business.

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 loss of reputation, public support and funding. The board sets the desired organisational culture and then leads by example (see page 36).

Interpersonal

Listening to the viewpoints of others, suspending judgement and putting oneself in the shoes of others are all essential boardroom abilities. Equally important is the ability to ask probing or exploratory questions.

It is imperative that directors can effectively question the CEO, 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

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 emerging understanding of the importance of dialogue (as distinct from traditional debate) and skill in its application is a topic that is very relevant to all boards.

Personal attributes of directors

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, to 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', it 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 be objective, viewing 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 individual directors to identify and acknowledge any real or potential clash of interests and take appropriate steps to distance themselves 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. So 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. The board needs to ensure it spends its time predominantly on matters that are important but not necessarily urgent.

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.

Commitment to governing

The board's job is to govern the organisation, not to manage it. Directors must therefore understand the difference between these two interdependent but separate roles and commit 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 assist with advocacy and lobbying by accessing or influencing the target can be invaluable. However, not all directors will bring such connections and neither 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 or trust deed 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.

Most of the NSOs remain as federal structures, which brings particular challenges. Positive change over the past 15 years has removed some of the less relevant and more problematic practices but the model is under pressure in a changing world. Organisations in the sector have grown considerably and directors find themselves responsible for significant businesses of some complexity.

Directors arrive in sector boardrooms in various ways. Some boards are fully elected; others are a mix of elected and appointed members. Some boards, notably those of regional sports trusts, 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 the 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 having 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 is a sense the board is being loaded with cronies and confidants.) Nevertheless, there are advantages if those appointing or electing new board members are advised of the board's strengths and weaknesses, the challenges it is facing, and the board's view on the skills and experience it requires.

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

Independent directors

Many organisations are moving towards having several independent directors. This is consistent with good commercial practice. As well as the skills they often bring to the table, they will have 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 onto the board. Often boards seek specialist skills that are better obtained on a contracted basis. For example, it's common to hear board members say 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. If they are asked for legal advice in the boardroom, lawyers are generally likely to recommend seeking this advice from an independent legal source, rather than offering the advice themselves.

Some organisations now require the independent directors to be truly independent. Their constitution stipulates 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 that this can greatly enhance the range of skills and perspectives around the board table.

Where boards have a number of elected directors it is important to cast the net wide for candidates for those positions and for the annual meeting to consider carefully the skills required and the necessary balance across the board. Knowledge of and long association with a specific code is helpful but as organisations become larger and more complex that attribute alone is insufficient.

Relevant board selection criteria

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

Boards in the sector have traditionally sought to recruit people onto their boards with specialist skills (e.g. lawyers, accountants and marketing and business people). 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 introductory section (see page 11).

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 for this, the board should specify the advisors' role, for example, 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 produce 'vanilla thinking'. A board works best in a climate in which a range of contrasting views are put up and tested in a spirit of collective learning and creative tension or 'agreeable disagreement'.

Play, active recreation and sport boards in particular need to reflect the community they serve. During recruitment, factors like gender, ethnicity and age need to be actively considered.

Diversity in its broadest sense is a key issue for the sector at all levels (see pages 30 and 122).

> **"Diversity of thought is essential in fully identifying risks and opportunities."**
>
> **Kirsten Patterson**
>
> CEO Institute of Directors in New Zealand

Getting the right people around the table

Simon Telfer

It can be difficult attracting board members, particularly if your organisation's profile is not high and the remuneration on offer is hovering around zero. But here are some best practice tips and pitfalls to avoid.

Board members need to be attracted and inspired – this requires you to sell the sizzle

Sell the sizzle

Good board members don't need more roles, particularly unpaid ones. So they need to be attracted and inspired and this requires you to sell the sizzle.

Highlight the change you are trying to make in the world, the calibre of current board members, the quality of the existing governance process, or some upcoming major events. Failing that, be honest and focus on the challenge!

Two- or three-line position descriptions don't cut it. Not only does the lack of detail fail to capture interest, but it sends a message that *"we haven't thought too much about this"*. First impressions do count.

Applications close soon

Human nature sees many individuals submit their application on the last day. Extending the closing date just prolongs the process and frustrates board members who applied early (as they wait to hear the outcome). Worse still are roles that state "open until filled", as there is an insufficient call to action, and it may look like you are struggling to fill the vacancy. We suggest a period of three weeks for positions to remain open.

Ditch the application forms

The application process should be as simple and convenient as possible, with few barriers put in the way of busy directors.

Sure, request that specific questions be addressed in a cover letter but don't ask for information that is more than likely found on a CV. If you really require authority for background checks or a statement that the CV is true and correct, issue this request at the interview stage or simply to the final candidate.

Displaying respect to all applicants creates a lasting brand experience

Give feedback promptly

Don't leave the sending of 'thanks but no thanks' emails until your board member is appointed – it's too long. Send 'no' emails to the definite 'nos' and a 'we're still considering you so please bear with us' email when you require more time.

Displaying this respect to all applicants creates a lasting brand experience. Remember that a candidate who is not right for this role may be a great board member fit in subsequent years.

Board diversity

If you have two people on the board who think the same... you don't need one of them!

Diversity of board members brings different thinking, leading to stronger decision making. It also demonstrates to your members that individuals of different backgrounds are welcome in the sport and are represented around the top table.

To attract a diverse board, make sure:

- the appointment panel itself is diverse and has independent representation
- the position brief isn't unconsciously biased so that it excludes certain demographics
- you specifically encourage applications from a certain section of the community
- you advertise the role to as diverse an audience as possible (e.g. through Appoint Better Boards).

Simon Telfer

Simon Telfer has over 20 years' international commercial and recruitment experience, as well as holding directorships and advisory board positions. Through Stimulus Consulting, Simon works with organisations across Aotearoa to recruit diverse, highly capable board members. He is the founder of Appoint Better Boards, New Zealand's largest and most diverse governance recruitment platform. Simon has been involved in governance recruitment for many organisations in the sector and has made a significant contribution to the Twenty More Women campaign addressing gender balance on boards within the sector.

Young people at the table

Madeleine Surie

Recently, millennials tipped Generation X off their perch to claim the highest spending power of any generation. They're educated, connected and, of course, socially conscious – expecting businesses large and small to make a positive impact on society. Purpose-driven companies such as Thankyou, Eat My Lunch and TOMS are all organisations that have benefited from a reason for being that extends past commercial profit – and that are especially lauded by those born between the 80s and 2000. Given the world's escalating environmental and socioeconomic issues, a millennial's perspective at the board level will remind the group to lift its sights to long-term success and sustainability. Consider also the exponential growth of technology; there is a lot to be learnt from the generation who spend around 25 hours a week online.

Here are a few tips I've picked up from both millennials and experienced board members along the way about recruiting and retaining young people in governance.

That first gig

As a board member, encourage younger people in your network to apply for roles. It may not have occurred to them that governance could be an opportunity for further development or an alternative career path. Agree as a board on what you will do to support the younger board members, such as seeking out a mentor outside the board, or offering to fund attendance to a course. Younger members may have an exceptional track record, but governance is a totally different ball game and they will need a place to debrief and ask questions. The same goes for those applying for roles – find out what the board can do to support you.

My advice to first-time board members is to start with a good team. You might not get onto the board of your dreams on your first go, but sitting with a board that can teach you the right processes and policies will set you up for a bright future and bring you closer to your goals. This is something my mentor taught me, and it has paid dividends.

Make it simple

Regardless of age, time is a scarce resource. The all-important agenda ensures the meeting is concise and allows the conversation to get straight to the point. Also, circulating papers early will give younger board members time to research topics that are new to them and prepare their questions in advance. To keep a millennial engaged, an organised agenda that keeps the conversation at a high level will ensure their continued focus and enthusiasm.

For the new millennial board member, you might think a slick agenda that's strictly followed is obvious, but it is an art you'll be thankful for once perfected. Also consider how you will contribute to the conversation; a golden rule is to aim for three insightful questions each meeting.

Around the table is a team

As well as purpose, a young board member wants to feel part of a team. It's important for the chair to acknowledge everyone, sometimes by circling the table to seek each person's perspective. Diversity of thought should be applauded and is beneficial to the organisation overall when there are opposing views. It can be intimidating as a young board member to speak up, especially when you have a different opinion – but the quickest way to grow is to be bold and ask that burning question.

As a young director, you have the chance to offer a fresh perspective and the opportunity to learn from highly experienced directors with an incredible wealth of knowledge. Secure a seat around the table, speak up, soak it up and grow your career in governance.

Madeleine Surie

Madeleine Surie is the Global E-Commerce Manager for the Natural Pet Food Group, a New Zealand pet nutrition company based in Christchurch, which exports to over 25 markets. She is also the founder and trustee of Forward Foundation, a charity which creates development and leadership opportunities for girls through sport, and established a board to ensure the charity's sustainability. Maddy was part of the Sport NZ Women in Governance programme in 2016 and 2017. She received an Institute of Directors Canterbury Branch First Steps in Governance Award in 2017, giving her an internship position on the Ronald McDonald South Island board for two years. She also served on the board of Tennis Canterbury and recently joined the Ngā Puna Wai Sports Hub Trust board.

A board recruitment process

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

The key steps can be divided into three phases:

Phase one: Needs assessment

In the steps laid out below it is assumed that many of these processes are ongoing and will not be started from scratch at the beginning of a recruitment cycle, for example, an agreed and documented view on the board's role. So in many cases the approach should be to review, revise and update if necessary.

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 starting a recruitment process. 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 is difficult. It may also be useful to invest in an independently facilitated discussion of the survey results.

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

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

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

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

Phase two: Recruitment (primarily applicable to appointments)

5. Identify suitable candidates (Month 3/4)

In many organisations there are traditional avenues for obtaining new directors. However, these are increasingly viewed as relying on personal contacts and existing directors' affiliations, 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. Each organisation is also likely to have a range of social media channels available.

6. Shortlist 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. Make the 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, its mandate may not extend to a final decision and would require full board agreement. The timeline should take this into account.

8. Finalise the 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.

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

Such clarity may include a position description, the board's code of conduct, commitment to evaluation and development, and public accountability. On appointment it can be useful to have new directors sign an engagement or commitment letter.

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 and may mean reworking 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 keeps an eye on its performance and composition – one never knows when a new appointment may become necessary. Three further steps can be identified:

9. Review the board's performance and composition

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

10. Maintain the needs matrix and a current director profile

The needs matrix must be updated regularly (at least annually, if not more frequently in rapidly changing environments). The ideal time is following or during a board and director performance assessment. As described in Step 4 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 if a new director is needed.

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 non-profit sector it is increasingly common for boards to use specialist appointment panels to assist with the director election and appointment process.

Where the organisation's constitution allows, these 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 could be in the form of a board policy or bylaw.

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

Questions

Board composition

- Are directors clear about what is expected of them?
- 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?

References and further information

Online resources

Board interview toolkit

Boardroom competencies

Commitment letter for new directors

Due diligence checklist

Needs matrix for board recruitment

Role description for an independent director

Essential reading

Brown, J. *The Imperfect Board Member: Discovering the seven disciplines of governance excellence*. San Francisco: Jossey-Bass, 2006.

Further reading

Leblanc, R. '20 questions directors of not-for-profit organizations should ask about recruiting, developing, assessing and renewing directors'. Toronto: Chartered Professional Accountants of Canada, 2019.

Short reads

Nahkies, G. 'Getting on board – the new director induction process'. (2010).

Nahkies, G. 'Selecting a dream (boardroom) team'. (2016).

Nahkies, G. 'What kind of diversity does your board need, and why?' (2021).

Board recruitment support

www.appointbetterboards.co.nz

Appoint advertises director and trustee positions to a large and diverse community of potential board members. Organisations find Appoint's candidate management system an efficient way of processing and sharing applicant details. The service is free for national and regional sector organisations.

Step 9: Provide purposeful induction

> **A leader takes people where they want to go. A great leader takes people where they don't necessarily want to go, but ought to be.**
>
> **Rosalynn Carter**
>
> First Lady of the United States, 1977-1981

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, that is, 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.

Any director considering a new role should have undertaken some form of due diligence. This may include consideration of publicly available information, and should also include conversations with people who are in a position to understand the current state of the organisation. Of critical importance is who else is at the board table.

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

Key elements in an effective induction process

The board charter

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

The policy should ensure new directors have access to key information about the organisation, its constitution or trust deed, work, policies and procedures, and strategic plan. Many boards develop a specific board charter that contains these documents and 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 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 record essential decisions, and record only motions, specific statements for the record and, perhaps, a brief reference to papers and key considerations in the decision
- the strategic plan and any key strategy/issues papers
- policies – because policies capture the board's decision making in one place (usually in the board charter), it is important they are accessible and up to date
- a glossary of terms and acronyms used
- the current year's meeting schedule
- the board's annual agenda (work programme).

A sample director induction policy is included as part of the board charter in the online resources.

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 the board's processes and history, and talk about crucial issues like potential conflicts of interest.

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

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 (in terms of interests, age, common business affiliations and common background experience). They should sit alongside the director at board meetings, explaining board processes, translating jargon and filling in knowledge gaps where required. This internal board 'buddy' can be augmented by an external mentor providing a broader perspective.

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

The board's expectations and actions set the moral tone for the organisation. How boards deal with board members' conflicts of interest is a good test of this moral standing and failure to manage these 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 Conflicts of Interest policy describing the processes to be followed when conflicts are identified.

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

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.

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.

At the time of writing, the revised Incorporated Societies Act was still in draft. However, it seems likely that the handling of conflict of interest matters will become more closely aligned with the Companies Act and it will be necessary to make the register of interests public.

A good board will 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?
- Do you assign a board 'buddy' to new directors?

References and further information

Online resources

Board charter and policies including: director induction and conflicts of interest

Due diligence checklist

Essential reading

Nahkies, G. 'Getting on board – the new director induction process'. (2010).

Further reading

Spencer Stuart. 'New director onboarding: 5 recommendations for enhancing your program'. 2018.

Short read

Kilmister, T and G Nahkies. 'Harnessing the new director's involvement from day one'. *Good Governance* 15 (May-June 2000).

Quick reference guides

Step 1 – Define and agree the board's role

The governance process

Governance is the process by which the board:

- sets strategic direction and priorities
- sets policies and management performance expectations
- characterises and manages risk
- 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 non-profit – develop and use a board charter as the basis for defining their governance principles and practices.
- The board is a layer of ownership down not a layer of management up.
- The board is focused on creating the future not minding the shop.

Other aspects of governance

Governance is:

- servant leadership – described as *"...an insistent motivating force...that obliges the institution to move toward distinction as a servant" – Robert Greenleaf*
- 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 to:

- define the organisation's purpose, direction and priorities (Step 1)
- develop a governance policy 'umbrella' (Step 1)
- specify key outcomes and approve the availability of resources (Step 4)
- appoint, support, evaluate and reward the chief executive (Step 5)
- establish a framework for assessing and mitigating risk (Step 6)
- regularly scan the environment beyond the organisation (Step 6)
- gain owners' and other stakeholders' input into determining direction and goals, and maintain communication with them (Step 6)
- ensure the board complies with statutory and contractual requirements and with the board's policies (Step 6)
- set standards for and evaluate the board's performance (Step 7)
- ensure there is appropriate succession planning (Step 8).

Governing structures and the legal and accountability framework

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

- 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
- Collective and individual responsibilities for board members.

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 anagement 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 the issues that clearly belong to the board
- ensure board discussions are timely, fair, orderly, thorough, efficient and focused
- encourage full participation of directors
- observe a recognised 'rules of order' process for board discussion
- take steps to resolve unproductive conflict
- ensure the board charter is maintained and up to date
- act consistently with agreed governance policies and processes
- avoid making independent operational decisions which are the prerogative of the chief executive
- 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 a constitution is not 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.

It is not the board's responsibility to adopt or approve operational policies.

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.

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 CEO.

Step 2 – 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 non-profit sectors develop 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 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/ key challenges
- consultation with key stakeholders
- meeting with the external auditor
- review of health and safety obligations
- review of organisational culture
- committee reporting dates
- signing off the annual report
- a schedule for policy review
- dates for meetings and other significant events specific to the organisation.

The annual agenda also ensures the board controls its own business and 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.

Analysing and evaluating progress

During the year the board should schedule an in-depth discussion on each of the Ends policies, examining each and subjecting it to a variety of strategic thinking and analysis processes. Ends policies will include outcomes and a statement of the external benefit to be created. This process will serve as an in-depth analysis of the chief executive's achievements and will strengthen board members' knowledge about the Ends policies of the organisation. Mission-critical risks and major challenges related to achievement of the desired ends can be added to a work plan for consideration.

The following is a sample work plan. It is not intended to be complete – each organisation can construct their own with reference to the list of options above.

Annual board work plan		
January	**February**	**March**
	3/2 Audit & Risk Committee 10/2 Board meeting Health and safety/organisational culture review Key strategic issue #1	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 Health and safety/organisational culture review Key strategic issue #2
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 Health and safety/organisational culture review
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 Key strategic issue #3	5/12 Board meeting Six-monthly CE review Quarterly policy review Health and safety/organisational culture review

Step 3 – Make 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 elements come together in the boardroom.

A board meeting should be stimulating, challenging and, ultimately, satisfying

It should focus on two core aspects:

- The desired strategic achievements and understanding of the environment and issues impacting on the organisation's ability to achieve its goals
- The risk factors that could impede or disrupt the organisation's ability to achieve the desired results.

Dialogue is at the heart of a board meeting

The quality of interchange between directors is the key determinant of the success of the meeting.
This will include:

- a spirit of collaborative exploration of key issues
- a contest of ideas but not of personalities
- constructive and respectful inquiry of others about their views
- use of open, non-judgemental questions
- a demand for rigour in analysis and evidence-based decision making.

It is acceptable and even desirable to have a:

- creative tension in the room
- level of agreeable disagreement.

Board meeting basics

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 more of its time on matters that are important but not urgent, for example, environmental monitoring, strategic thinking, policymaking, 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 achieved by:

- planning meetings effectively and managing them well
- producing appropriate, concise board papers that get to the heart of the matters on which the board must deliberate
- having board committees or task forces explore the issues ahead of the meeting, help gather relevant information and frame issues
- encouraging each board member to be well prepared
- allowing board members to ask probing questions
- encouraging self-discipline and concentration among meeting participants
- having proactive policy that prevents the board from needing to consider everything in an ad hoc manner.

Common pitfalls in meeting content include:

- revisiting earlier decisions through the minutes or matters arising
- tabling unnecessary correspondence
- introducing staff reports that are not placed in a governance context, and purposeless 'information backgrounders'
- seeking permission (flawed delegation)
- presenting unnecessary financial reports and approvals
- allowing presentations that are not relevant 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
- encourage participation from all directors
- manage the time of the meeting
- ensure the discussion is timely, fair, orderly and thorough
- manage conflict and summarise accomplishments.

The chief executive should provide timely reports on:

- financial performance and projections
- achievement of, or progress towards, strategic outcomes
- information about changes in the operating environment as these affect the results sought
- any change in the major areas of risk
- information about any impact of the board's policies on the chief executive's ability to do their job.

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

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

Committees

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

- Audit and risk management
- Chief executive employment
- Governance-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
- a sunset clause, if appropriate, limiting their lifespan (this generally applies to project-specific committees).

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

Step 4 – Provide strategic leadership

Strategic planning

A board that provides effective direction will be able to determine:

- relevant and current organisational purpose, strategic outcomes and values (organisational culture)
- a positive vision of the future
- a process that can engage all directors
- a focus on the future
- how to win and maintain 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
- 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 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."

The structure of the board's statement of strategic direction

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. *"We exist so that…"*
3. **Values** – cherished beliefs and principles that are intended to inspire effort and guide behaviour (the core of organisational culture).
4. **Strategic outcomes** – the organisation's high-level, longer-term deliverables.
5. **Key results** – the organisation's priority 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 of achieving key outcomes.
7. **Resource allocation** – resources should be allocated against each of the key result areas.

A summary version of the statement of intent is a useful public document that makes clear the board's intent to all stakeholders and what benefit it seeks to create with the time and resources available.

Operational planning

The operational plan is the task of the chief executive. Boards should be cautious about signing off this plan, as 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 operational plan. Failure to understand this will encourage the chief executive to report on activity rather than progress towards outcomes.

Stakeholder relations

Good governance demands that stakeholder interests are identified and appropriate relationships established. Those the board considers it is primarily accountable to should attract the most attention. Boards should involve stakeholders when planning direction and priorities.

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

Strategic risk management

Risk management is the process by which the board and chief executive ensure 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.

Step 5 – Employ and support a chief executive

When boards of fully volunteer organisations find that growing governance and operational demands are beyond them they recruit their first paid employee. They often then struggle to let go of the operational reins.

The board needs to ensure that it really wants a CE (or equivalent) and is prepared to genuinely relinquish operational control.

Finding the right chief executive

Boards should:

- come to a shared definition of leadership
- resolve strategic and political conflicts
- actively measure the 'soft' qualities (people/relationships) in chief executive candidates
- beware of candidates who act like chief executives
- recognise that real leaders are threatening
- know that insider heirs often aren't the best option
- not rush to make a decision.

The board needs to be explicit about the organisational culture that the CEO will be expected to model and lead.

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

What sort of person?

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?

Use an external recruitment agency, if possible. Interviews and testing against agreed criteria will produce a shortlist for consideration by a board subcommittee.

Full board consideration

Have the full board meet the leading candidates and make the final decision.

Induction

Brief and thoroughly prepare the new CEO via a formal induction process.

Relationship with the CEO

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 CEO's role at the board table must be understood
- the board must be kept apprised of all risks faced by the organisation
- 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 limitations approach is the most commonly used way to define the board's delegation to the chief executive.

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 a prescriptive approach. With the board outlining what is unacceptable or unallowable, the chief executive can manage with the assurance that all other actions are permitted.

Preceding the specific categories in the delegation such as finance, marketing, public relations and membership should be overarching statements that set the wider boundaries of the delegation. These might include that the CEO must:

- not breach any statute, regulation or bylaw
- not act in an unethical, unprofessional or imprudent manner
- 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.

Step 6 – Measure and monitor the right things

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.

Unless the board establishes criteria for what it wants achieved, 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, mainly 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. The two main elements in establishing performance expectations are:

- desired outcomes: *results to be achieved.*
- planned actions: *ways in which results will be achieved.*

The board's job is to specify what the organisation is to achieve.

The chief executive determines the actions required.

Common errors in creating performance agreements

- Reliance on feelings, instead of using demonstrated evidence
- Misuse of adjectives like 'appropriate' and 'excellent' that are imprecise
- Misuse of verbs like 'promote', 'coordinate' and 'facilitate' that direct attention to the action instead of the intended outcome
- Use of comparative words like 'increase', 'improve', and 'more' which need a fixed reference point
- Failure to be exact
- An unreasonable expectation, e.g. 'ensure the government increases funding to the organisation'.

Scanning the environment

Many boards are inclined to focus inwards and backwards instead of forwards and outwards.

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.

Periodically the board needs to:

- check the organisation from the outside
- see what's on the horizon
- define the main strategic challenges.

Step 7 – Review the board's performance

The board should set standards for its own performance

Every board needs to conduct regular assessment against performance standards.

Assessment

- Identifies board-wide performance improvements
- Aids succession planning
- Identifies areas where directors' personal contribution could be enhanced.

Typical reasons for resistance to board evaluation

The concept of governance assessment is now more common across all sectors. But the idea that boards and individual directors should be held accountable for the effectiveness of their contribution still meets with some pushback and elicits responses like:

- 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.

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

No one volunteers for a board to deliver mediocre service.

Sport New Zealand online governance evaluation system

The Sport New Zealand governance assessment system continues to be refined and updated. It is available at https://snz.directorevaluation.com/ 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.

Governance Mark assessment

The whole-of-board assessment module in the online system is now aligned with the Governance Framework for Play, Active Recreation and Sport in New Zealand. Using a Sport NZ-accredited assessor, it is possible to go through a governance assessment and development process that results in the award of the Governance Mark.

Evaluation of the board is based on its own policies

Whatever tools and techniques are used for governance evaluation, the board should have its own prior agreements about operating practices and values (Step 1). This is the same principle the board applies to evaluating its chief executive.

A governing style policy within the board charter can be useful when compiling appropriate performance expectations.

Every board should have a clear job description and agreement on performance standards.

External accountability

The board is a subset of the organisation's owners/members and as such should provide a level of accountability back to that and other important stakeholder groups. This is different and separate from organisational performance. It assumes that the board has defined its own work and is able to report externally on how it has performed during the year. It is increasingly common to see a governance section in an annual report.

Step 8 – Get the right people on board

Standards and expectations of voluntary boards

Getting the 'right' people on sector boards is a common challenge.

Many directors consider themselves 'just' volunteers and are reluctant to accept the high performance standards needed to perform their roles well.

The increased demand for accountability, from the community and under law, 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 weakened many 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, expressed upfront 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 have a number of independent, directly appointed directors. This increases the depth and diversity of talent around the table, and attracts some people who may not wish to go through the organisation's electoral processes.

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 the nature of the board role and can effectively contribute to that 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 skills

Stakeholder-centric focus

Knowledge of the business

Commitment to the mission and values

Interpersonal skills

Commitment to teamwork

High standard of ethics

Independence of thought

Perseverance

Sense of humour

Succession and recruitment

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

Phase One: Needs assessment

Many of these items are ongoing and should simply need review.

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). Invite existing directors to comment on the skills, experience and attributes they feel the board as a whole needs.
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. The election process will be diminished in value if there is any sense it is prompted by self-interest or a desire to stack the board.

It is essential 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. Shortlist potential directors (Month 4).
7. Make the final selection (Month 5).
8. Finalise the appointment and conduct orientation (Month 5).

Candidates must be clear about the challenges facing the organisation and the contribution they are expected to make to the organisation.

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

Expectations will include time, codes of behaviours, and approaches to assessment, development and accountability.

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.

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 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.

Board development workshop

Board development workshops are an excellent way to facilitate an induction and encourage teamwork. An outside facilitator is a good idea, and if resources permit, team profiling is a useful part of the workshop.

Succession planning

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.

Diversity

The board should have a clear policy on diversity that guides its recruitment.

It needs to reflect the community it serves and to ensure a diversity of thought around the table.

Modelling culture

The board sets, models and maintains oversight of organisational culture. A description of the desired culture should be provided to prospective directors.

Key elements in an effective induction process

The induction manual

The manual should include key information about the organisation, its work and its policies and procedures, and provide a reference for board members throughout their term.

Contents should include, but not be limited to:

- the constitution
- the strategic plan and summary statement of intent
- a statement of organisational values
- information about the organisation, for example, an organisational chart, contact details for fellow directors and key staff
- current and recent meeting papers including the minutes and recent financial statements
- the board charter containing governance policies
- the board's code of conduct
- a glossary of definitions of terms used and acronyms
- the current year's meeting schedule
- 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 talk about crucial issues like potential conflicts of interest.

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

Mentors

An increasing number of boards use formal or informal mentors to guide new directors. The mentor should be matched to the director (in terms of interests, age, common business affiliations and common background experience). They might be a current board member (a 'buddy director') 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 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 those of the organisation.

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 able to deal with actual or potential conflicts without creating embarrassment or impeding the board's work.

A simple Conflicts of Interest policy is included in the online board charter.

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.

Changes to the Incorporated Societies Act

Still in draft at the time of writing, the proposed revisions to the Act will have guidance on the management and visibility of conflicts of interests.

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 and related topics in more depth.

Books

Carver, J and M Carver. *Reinventing Your Board: A step-by-step guide to implementing policy governance*. Rev ed. San Francisco: Jossey-Bass, 2006.

A practical guide to putting John Carver's policy governance model to work.

Collins, J. *Good to Great*. New York: HarperCollins, 2001.

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

Ingram, R T. *Ten Basic Responsibilities of Nonprofit Boards*. 3rd ed. Washington DC: BoardSource, 2015.

A very popular book exploring what the author has specified as the 10 core areas of board responsibility including determining mission and purpose, and ensuring effective planning. It has a US focus.

Kahneman, D. *Thinking, Fast and Slow*. London: Penguin Books, 2012.

A superb book from the Nobel winning psychologist exploring bias and the thinking process. Strong relevance for boardroom processes and decision making.

Lawrence, B and O Flynn. *The Nonprofit Policy Sampler*. 3rd ed. Washington DC: BoardSource, 2013.

This resource provides key elements and practical tips for 70 policy topic areas, along with more than 300 sample policies, job descriptions, committee charters, codes of ethics, board member agreements, and mission and vision statements, collected from a wide variety of US non-profit organisations. All samples have been professionally and legally reviewed and are included in the accompanying downloadable content.

Newport, C. *Deep Work: Rules for focused success in a distracted world*. London: Piatkus Books, 2016.

An exploration of meaningful work in a distracted world.

Stigter, M and C Cooper. *Boards that Dare: How to future-proof today's corporate boards*. London: Bloomsbury Business, 2018.

A discussion on how boards need to reframe the concept of governance for the contemporary world.

E-letters, blogs, periodicals

Boardroom

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

Boardpro

Blog from the New Zealand board software developer.
https://www.boardprohub.com/blog

Some free resources on the website.
https://www.boardprohub.com/

BoardSource

Regular blog from US-based organisation focused on non-profit board development.
http://www.boardsource.org/

BoardWorks

Some free articles and the *Good Governance* periodical.
https://boardworks.nz/all-resources/

Chairing the board

Blog dedicated to the role of the chair from experienced New Zealand director and educator Richard Westlake.
https://chairingtheboard.com/

Farnam Street

Not governance focused but an excellent weekly blog dedicated to better thinking.
https://fs.blog/blog/

LinkedIn Groups

There are several LinkedIn Groups focused on governance:

- Boards and Advisors, Richard Leblanc
  https://www.linkedin.com/groups/3834048/
- Institute of Directors in New Zealand
  https://www.linkedin.com/groups/164708/

McKinsey

Broad business focus including occasional governance material.
https://www.mckinsey.com/about-us/new-at-mckinsey-blog

Websites

Appoint Better Boards

An online system connecting boards and directors that also provides a candidate management system. Focused on the non-profit, privately owned business and play, active recreation and sport sector. Available to national and regional sporting organisations at no charge.
http://www.appointbetterboards.co.nz/

BoardSource

Although US focused, this site has much to offer. Some material is public. Membership gives subcribers 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.
www.boardsource.org

CompassPoint

A good site for anyone interested in the governance of non-profit organisations.

CompassPoint is a US non-profit service organisation offering a full range of training, conferences and resources.
www.compasspoint.org

Diligent

The board software company publishes excellent resources and research.
https://diligent.com/au/resources/

Free Management Library

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 non-profit sector.
https://managementhelp.org/

Ministry for Women

Some good resources for women looking to develop their governance career.
https://women.govt.nz/leadership/boards-and-governance

Policy Governance

John Carver's website advocates the use and application of his Policy Governance® model. It regularly has at least one substantial article on a governance performance issue which can be downloaded without charge. The site also provides information on Carver's publications and the courses and seminars he runs on policy governance.
www.carvergovernance.com

Women on Boards

A business unit of Governance New Zealand dedicated to assisting and promoting women on boards.
https://www.governancenz.org/women-on-boards

Sport New Zealand resources

Sport New Zealand has a comprehensive range of governance and related resources freely available to organisations wishing to advance their governance understanding and application.

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