

### **Abstract**

This article discusses factors that influence a board's approach to governance, describes and critiques eight governance models commonly used in nonprofits and offers guidance on their application. It suggests 'Results-based' governance as an emerging model that nonprofit leaders may want to consider and offers some 'Quick Tips' to guide development of an approach that suits your organization.

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### **The Importance of Governance**

“What difference do boards really make to nonprofit organizations? What is governance anyway? Since boards are a legal necessity how can we get the best value out of them? How can we evaluate their performance? What do you think about the ‘policy governance’ model? What are the alternatives?” These are some of the questions about nonprofit boards repeatedly heard during my thirty-year career in public service, which included extensive experience as a grants maker, CEO of a large nonprofit, and member of many nonprofit boards.

In 1999, as I was embarking on a third career in research and consulting, I decided to explore these and related questions in more depth. Numerous scandals in high profile nonprofits and business corporations in North America over the previous decade had been attributed to failed governance and spurred demands for more effective and accountable governance. Aggressive promotion of the Policy Governance model had prompted many boards and executives to attempt to implement it. Many found that it was simply not a comfortable fit for their nonprofit so ‘mixed and matched’ with other models without a systematic rationale.

A review of the literature led me to conclude that alternatives to the Carver, ‘one size fits all’ Policy Governance<sup>i</sup> model were not broadly known nor lodged within a coherent framework that would guide their appropriate use. During 2000-2001 I conducted in-depth case studies on the governance practices of 20 nonprofit organizations<sup>ii</sup> across Canada to identify commonly used governance models and factors that influenced their approaches to governance.<sup>iii</sup>

Eight governance models were identified through this research. They are, listed on a continuum of board involvement in operational matters, ‘Operational’, ‘Collective’, ‘Management’, ‘Constituent Representational’, ‘Traditional’, ‘Results-Based’, ‘Policy Governance’ and ‘Advisory’. See the ‘Quick Overview of Governance Models’ for a brief outline of these.

Our working definition of governance was “the processes, structures and organizational traditions that determine how power is exercised, how stakeholders have their say, how decisions are taken and how decision-makers are held to account”. There is ample anecdotal evidence that the work of nonprofits usually continues in spite of flawed governance. The job still gets done! Yet there is also evidence<sup>iv</sup> that governing boards can enhance organizational performance by understanding and undertaking the governance role in a manner suitable for their particular organization. They carry the public (or membership) trust and provide an accountability structure for management. The importance of governance grows with the level of public interest and investment in an organization.

### **A Dynamic Process**

Only twenty percent of the organizations in our study used the traditional governance model with delegated management and board committees structured to parallel management functions. Most of the remaining organizations used hybrid approaches created by applying practices drawn from two or more models to different aspects of their mission (e.g. public or member service, research, education, advocacy, etc.) or responsibilities. They typically drew on the Carver 'ends/means' distinction to assist them in clarifying the respective roles of board and staff but superimposed this on the traditional or other models. This clearly indicates a very dynamic process for governance design but the outcomes often lacked focus and coherence and often didn't serve the best interests of the organization.

Most nonprofit leaders know that every organization has its own culture and unique set of circumstances. The challenge, then, is in understanding the factors that need to be considered in designing a governing system that works best for an organization. The case studies revealed that determination of a governance approach that's right for a particular organization clearly requires more than selection from a menu of available alternatives. It requires a creative application of practical knowledge...knowledge that many directors and CEOs didn't have.

### **Factors Influencing Approach to Governance**

The factors most important to determining an organization's approach to governance (and degree of board involvement in operations) appear to be the size and complexity of the organization; its 'ownership' structure; the timing and nature of critical events; transitional phases in organizational development; and, personal or political agendas of board members. These don't always come together in a way that supports effective organizational performance.

### ***Organizational Size and Complexity***

As organizations grow in size and complexity, they must necessarily become more formally structured. Some form of hierarchical management must be introduced in order to make 'management manageable'. This will inevitably create some distance between the board, staff and clientele of the organization requiring the board to adopt proxy measures of organizational performance rather than relying on direct observation. Boards that do not make a successful transition to new governance practices as their organization increases in size almost inevitably lead the organization into serious problems.

### ***'Ownership'***

Identifying 'owners' is essential to establishing proper accountability mechanisms and open lines of communication with stakeholders. We view 'primary' owners as those who select the board. Collectives have joint staff/board (and sometimes consumer) ownership. Organizations with an active membership base are owned by its members. Board members own those organizations with self-regenerating boards. Funders own boards whose directors they appoint. Taxpayers own publicly elected boards. Lines of accountability are blurred when selection processes are mixed such as in the health authorities which had both funder-appointed and publicly elected directors.

### ***Critical Events and Transitional Phases***

Critical events (e.g. financial crises, serious public controversy or labor relations disputes) and transitional phases (e.g. departure of the CEO, significant board turnover, major budget expansion

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or contraction) tended to draw boards into operational and management functions from which subsequent withdrawal was difficult. Experience suggests that boards which intrude upon key management functions during crises seriously risk undermining the CEO as occurred in more than one case with serious labor relations problems.

Transitional phases present a particular dilemma for boards. Parent domination of the board of an 'Association for Community Living' was a large factor in its failure to recognize that the ACL had outgrown its earlier 'hands on' involvement in operations and management. Its use of a traditional committee structure based on operational and management functions encouraged continued board interference in staffing and programming decisions.

### ***Directors' Personal Agendas***

Directors' pursuit of personal or political agendas at odds with the best interests of the organization tends to cause board interference in management. Representation of constituent factions within a native friendship center created chronic divisions which drove out five CEOs in seven years.

Perhaps the most difficult thing for volunteer board members to do is confront board colleagues who may be in conflict of interest, in interpersonal conflict with other directors or are pursuing personal/political agendas that may interfere with the nonprofit's best interests. The board chair is responsible for managing the board's conduct. If disruptive influences cannot be resolved through private discussions between the chair and offending directors then they need to be addressed with support of an executive or governance committee or the whole board. A past chair might play a facilitative role. Failure to address such issues doesn't mean that the problem is likely to 'go away by itself'. It's more likely to lead to an exodus of productive directors and competent senior managers.

### **Models in Practice**

Operational, collective and management boards may be functional for smaller organizations but they are inappropriate for any board that has delegated management responsibility to a CEO. While constituent representation is a discreet model in itself, it is also often a dynamic within other models that can deflect directors from their primary responsibility to the overall interests of the nonprofit they govern. The Advisory approach to governance is fraught with risks to personal liability of directors and the organization itself. Others have referred to this as a 'rubber-stamp' board. None of these approaches is recommended for the typical mid-sized nonprofit.

So what choices are left for mid-sized and larger non-profits?

Many of the '*Traditional*' boards in the research sample suffered from absence of a clear delineation between governance and management roles. Committee structures (finance, HR, programs, PR, etc.) that parallel management and operational functions invite board intrusion into operational detail. Meeting agendas typically mimic this structure. The absence of a clear focus on results impairs board ability to 'add value' to the organizational purpose and account meaningfully to key stakeholders.

Many boards that have attempted to implement or adapt the '***Policy Governance***' model have found it is too complex to understand and implement, requires too much time and training, creates too much distance between the board and organization and erodes board control and accountability. Many have expressed concern that it creates a dichotomy in the full board/CEO

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partnership that is essential to effective governance and organizational performance. Nevertheless, Carver's distinction between ends and means has assisted many organizations in clarifying the respective roles of board and management.

A dynamic 'hybrid' of these models is what evolved for most boards in the sample. In one case, the board shared, with staff, 'operational' responsibility for development of public policy positions, public education and policy promotion while respecting the ends/means distinction in matters of financial, human resource and program administration. In others the board was active in collective bargaining and personnel selection, a typical management domain in larger organizations.

The 'Results-Based' approach to governance is an emerging 'hybrid' model identified in one leading edge nonprofit with some elements of this approach appearing in a second. It addresses weaknesses identified in other models through limited use of committees structured around board rather than management responsibilities. The Executive Committee (poorly used in many nonprofits) carries responsibility for leading strategic planning and evaluating CEO performance. A 'Governance Committee' is responsible for regular review of bylaws, governance policies and practices as well as board (member) recruitment, development and evaluation. Risk Management and Quality Audit Committees ensure establishment of clear measures of organizational performance in key areas, monitor and audit performance and report on results. The 'board ends'... 'management means' duality is maintained in relationship to general management of finances, human resources and program operations.

### **Implications for Practice**

Drucker has suggested that a board cannot do its job without meddling, 'so it had better be organized to meddle constructively'.<sup>v</sup> The emergent 'Results-Based Governance' model appears to have evolved to assist boards in meeting this challenge. It acknowledges a legitimate board role in 'operational' activities such as development of public policy. It also legitimizes board activities in support of management or 'management' functions that might be necessitated by critical events or transitional phases. It reorganizes board structure to focus on clearly defined board responsibilities and the measurable results of organizational activities and management processes.

Evaluation of organizational performance can be both tricky and costly. 'Outcomes' are often difficult to define and measure in nonprofits. Identifying and monitoring 'output' and 'input' trends, though less difficult, requires structured focus and, sometimes, substantial resources. Securing adequate resources (including knowledge) to support effective governance and measure organizational performance is a continuing challenge for boards and funders.

There is no single approach to governance that is suitable for every organization. The factors discussed above are important considerations both in determining what drives boards to adopt certain practices and to understanding what practices might be appropriate for a particular nonprofit at a particular stage of its evolution. Some general insights can be derived from an analysis of the strengths and weaknesses of specific theoretical models. But practical adaptation to your particular circumstances is essential to effective application of any approach to governance. Trust, mutual respect, honest communications and collaborative relationships are essential ingredients of effective board/CEO partnerships, regardless of the structures and policies in which they are lodged.

### Quick Tips

- ⇒ Get your board focused on results: effectiveness and efficiency measures
- ⇒ Ensure that directors understand their first responsibility is to your organization rather than their 'constituents'
- ⇒ Organize committees around board rather than management responsibilities
- ⇒ Define as clearly as possible the respective roles of board and CEO within a full partnership
- ⇒ Manage the interface between roles flexibly, constructively, with candor and good humor
- ⇒ Ensure the board maintains sufficient independence of management to exercise its audit functions objectively
- ⇒ Draw those practices from governance models which best suit your context

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<sup>i</sup> Carver, John, *Boards That Make a Difference* Jossey-Bass, San Francisco 1990

<sup>ii</sup> This article is based on "Governance Do's and Don'ts: Practical Lessons from Case Studies on Twenty Canadian Nonprofits" which assessed their governance practices over a ten-year history. The study sample contained organizations from several nonprofit sectors. The median budget size was approximately \$3,000,000. The full report, related research and strategies to strengthen governance, are available from the Institute On Governance, Ottawa, Canada at [www.iog.ca](http://www.iog.ca) or by contacting the author, [mel.gill@synergyassociates.ca](mailto:mel.gill@synergyassociates.ca).

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<sup>iv</sup> See literature review in Herman, R.D., & Renz, D.O. (2000). "Board practices of especially effective and less effective local nonprofit organizations." *American Review of Public Administration*, 30, 146-160.

<sup>v</sup> Drucker, Peter, "Lessons for Successful Nonprofit Governance", *Nonprofit Management and Leadership*, 1990 1 (1), 7-14

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