GOVERNANCE DO'S & DON'TS

**Practical Lessons from Case Studies
On
Twenty Canadian Non-profits**

Prepared by:

Mel Gill
Institute on Governance
Ottawa, Ontario

Prepared for:

PricewaterhouseCoopers
The Canadian Rural Partnership, Government of Canada
Human Resources Development Canada
Health Canada
Canadian Heritage
Alberta Children's Services, Alberta CFSA Region 13

April 2001

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To obtain additional copies, please contact:
      Rural Research and Analysis Unit
      Rural Secretariat, Agriculture and Agri-Food Canada
      1341 Baseline Road, Tower 7, Ottawa, Ontario K1A 0C5
      Fax: (613) 759-7105
      Email: rs@agr.gc.ca

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PREFACE AND ACKNOWLEDGEMENTS

The project was initially conceived as a series of fairly modest case studies on the governance of ten non-profit organizations. The lessons learned from these case studies and a review of some of the normative literature on non-profit governance were intended to lay the foundation for development of a new theoretical framework for understanding boards and governance issues as well as development of 'practical resources' for improving the effectiveness of non-profit boards.

The vision and leadership shown by PricewaterhouseCoopers in providing initial support for this project was a key factor in sparking the interest of other funders. I am particularly grateful for the support and patience of Joanne Stidwill, Partner, PwC who encouraged this project to grow beyond the original design.

Thanks to support from Tim Plumptre, Managing Director, The Institute on Governance and financial support from Human Resources Development Canada, Health Canada, Canadian Heritage, Canadian Rural Partnership as administered by the Rural Secretariat of Agriculture and Agri-Food Canada, Alberta Children's Services and Alberta CFSA Region 13 we were able to develop a much more rigorous and comprehensive case study methodology than originally conceived, double the number of case studies in our sample and initiate a continuing program within the Institute On Governance to 'Strengthen Governance of Non-profit Organizations'.

This project grew out of my own experience as Executive Director of a large non-profit social service agency, as a board member for a score of national, provincial and local non-profits and as manager of a provincial agency responsible for grants to community social service and employment agencies. These experiences suggested that many members of non-profit boards, though volunteering with the best of intentions, often have limited knowledge of the governance function, limited resource material to draw upon and limited time to commit to training for their roles. These observations have been regularly affirmed by my colleagues over the past thirty years and reinforced by this and other research.

This research will assist in the development of practical, user-friendly tools that will, at least in part, address the needs of busy board members seeking ways to improve their understanding of governance and the effectiveness of the boards and organizations that they serve.

EXECUTIVE SUMMARY

There are approximately 175,000 Canadian voluntary sector/non-profit organizations in Canada, including more than 78,000 registered charities. These groups provide a variety of services for the benefit of the Canadian public, including community service, arts, recreation, religion, social services, education and health. They account for some $90 billion in annual expenditures, assets of $109 billion and about 12% of Canada's Gross Domestic Product. They employ 1.3 million Canadians and benefit from the service of some 7.5 million volunteers. Sixty per cent of their revenues derive from various levels of government.[1] The effective governance of these organizations is therefore clearly in the national interest.

The primary objectives of this research were to:
* Learn from organizations doing a particularly good job of governance, as well as derive lessons from organizations that have experienced major problems;
* Develop a better understanding of how governance practices in non-profit organizations need to be adapted to take into account a variety of factors that influence governance needs and functions;
* Identify alternative governance models available to boards and create a coherent framework for understanding these models;
* Provide support to boards and executive directors in understanding what governance practices and policies may best suit or serve their particular organization;
* Discover and develop a foundation of knowledge on which to build additional tools and resources to assist non-profit organizations in creating effective governance practices.

Responses derived from interviews and a Governance Self-Assessment Checklist completed by board members and the CEO's were analyzed in conjunction with relevant documentation to assess the governance practices of 20 non-profit organizations in Canada.

Overall, we found that interest in governance issues has increased tremendously during the past decade. This has been spurred by aggressive promotion of the Carver 'Policy Governance' model, and increased demands for greater public accountability generated by governance problems in a number of high profile cases. At the same time, alternative governance models have not been readily accessible or well understood. As a result, many non-profits have attempted, with limited success and, often, considerable frustration, to implement the 'Policy Governance' model or adapt it for their own purposes.

This research identified several models currently used by non-profit boards in Canada. They are referred to in this report as: 'Operational', 'Collective', 'Management', 'Traditional', 'Policy Governance', 'Corporate' and 'Constituent Representational'. We found most boards use a hybrid of these models created by applying practices drawn from two or more models to different aspects of their mission or responsibilities.

We examined how a number of factors influence governance practices. These factors included: who 'owns' the non-profit; different processes for board selection; the impact of size, complexity

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[1] *"Building on Strength: Improving Governance and Accountability in Canada's Voluntary Sector",* Report of the Panel on Accountability and Governance in the Voluntary Sector *(*Broadbent Report) Ottawa 1999p13.

and geographic scope; mandate; form of incorporation; financial circumstances; organizational history; knowledge about alternative governance models; personal and political agendas; and critical events and transitional phases. Although others also had significant influence, we concluded that the most important factors in determining an appropriate governance model were the size and complexity of the organization.

Boards and CEO's rated their overall governance effectiveness between 70% and 75% of their preferred ideal on the Governance Self-Assessment Checklist used in these studies. Areas of greatest strength were Board Culture and Board Structure. Human Resources Stewardship, Performance Monitoring and Risk Management were generally acknowledged as requiring improvement. Although 30% of the organizations had experienced serious financial crises at some point during the past decade, the Financial Stewardship of current boards was generally strong. These conclusions were supported by an analysis of documents and interviews with key informants.

The *Major Concerns of Boards* identified through this research included: director liability; financial viability; adopting more 'business-like' practices while maintaining human service values; how to 'add value' to the organization; finding the right balance between 'policy focus' and knowledge of operations; improving succession planning for board and staff; strengthening board orientation; developing clarity between the respective roles of board and senior management; improving measurement of board, CEO and organizational performance; and improving communication with stakeholders.

Signs of a Board in Trouble included: excessive turnover of CEO's or board members; difficulty recruiting credible board members; rapid depletion of reserve funds; chronic unplanned or unmanaged deficits; role confusion between board and CEO; low attendance or participation in meetings; poor management of meetings; factionalism; underground communications; unresolved conflicts; failure to address conflicts of interest; decision deadlock; disrespect for organizational norms and policies; and poor communication with funders and other key stakeholders.

We also identified the following *Keys to Success:*
- Strong board *and* staff leadership
- A positive working relationship between board and CEO
- Role clarity
- Strong agreement of key stakeholders on organizational values, mission and objectives
- Respect for organizational norms, board policies and decisions
- Good board development practices and teamwork
- Regular, objective assessment of board, CEO and organizational performance
- High levels of trust and low levels of conflict
- Constructive resolution of conflict and 'conflicts of interest'
- A good balance between organizational stability, flexibility, innovation and enterprise
- Consensus or 'near-consensus' decision-making
- Effective management of meetings and board work

The keys to success are easy to articulate. But the doors to good governance are difficult to unlock during the normal course of human interactions and organizational politics. It takes resolute

commitment to open communications and a good deal of hard work. The early warning signs of trouble ahead are usually easy to discern. Boards and funding authorities need to be vigilant for these and to take remedial action before, rather than after, crises erupt.

A.   BACKGROUND

A.1   The Voluntary and Broader Non-profit Sector in Canada

Governments at all levels have historically used non-profit organizations for the delivery of services and as instruments of public policy. The contributions of voluntary and non-profit organizations, which have long been an important pillar of Canadian society, are being increasingly recognized.

There are some 175,000 voluntary or non-profit organizations and registered charities in Canada.[2] "The voluntary sector employs 1.3 million Canadians, roughly 9% of the country's labour force and pays over $40 billion annually in salaries and benefits."[3] It has annual revenues of $90 billion and assets of $109 billion. It is comparable in size to the economy of British Columbia. Fifty-six percent of the jobs are in teaching institutions and hospitals. Eighty percent of Canadian charities have annual budgets of less than $250,000 and 56% of their revenues derive from governments (mainly provincial).[4]

Government fiscal constraints over the past several years have placed increasing demands and expectations on this sector to assume responsibility for both delivery and financing of programs from which governments have withdrawn; and to do so at lower cost. These new economic and social realities have heightened the need for a strong voluntary sector while, at the same time, changing government roles have increasingly challenged the sector to respond effectively to the needs of diverse Canadian communities.

A group of national voluntary agencies (the Voluntary Sector Roundtable) in 1997 commissioned a 'Panel on Accountability and Governance' to aid the sector in responding to these challenges. The panel issued its final report: *"Building on Strength: Improving Governance and Accountability in Canada's Voluntary Sector" (Broadbent Report)* in February 1999. It recognized the strength of the sector and emphasized the responsibility of individual voluntary organizations for good internal governance. It also noted, however, that the redesign of governance structures and processes in the face of a changing environment "is often approached as trial and error since there are few standards, published best practices or guides to assist organizations".[5]

In the spring of 1999 the federal government and the voluntary sector launched a joint initiative to improve and strengthen their long-standing relationship. The results of this work were reported in

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[2] These are estimates. Revenue Canada collects information only on registered charities and on non-profits with annual income or assets in excess of certain minimums.
[3] *"Building on Strength: Improving Governance and Accountability in Canada's Voluntary Sector* Report of the Panel on Accountability and Governance in the Voluntary Sector *(*Broadbent Report) 1999 p 13.
[4] Phillips, Susan, 'Redefining Government Relationships with the Voluntary Sector' Ottawa 1996. Carleton University School of Management.
[5] Broadbent Report p 22.

"*Working Together: A Government of Canada/Voluntary Sector Joint Initiative*"[6] in August 1999. It identified a number of aspects of human resource management and organizational design that are in need of strengthened capacity. The document also noted the unique role of the volunteer board and the need for governance techniques that take into account its distinction from the private sector.

A.2   Why Governance Matters

Public attention, over the past two decades, has been repeatedly drawn to failures in corporate governance. The United Way of America, the Canadian Red Cross, the National Arts Centre, the International Olympic Committee, and the B.C. Ferries Corporation, among others, have all experienced high-profile crises in recent years. These events have resulted in an erosion of public confidence in non-profit institutions in general, and a call for greater transparency and public accountability in a sector that makes such a major contribution to the Gross Domestic Product of Canada and the United States.

The 1992 *Cadbury Report*[7], commissioned by the London Stock Exchange in the United Kingdom, and the 1994 *Dey Report*[8], commissioned by the Toronto Stock Exchange, both highlighted the problems in corporate governance in the 'for-profit' sector. The 1999 *Broadbent Report*[9] highlighted similar concerns in the voluntary sector. The Auditor General of Canada and provincial counterparts have commented extensively during the past decade on the importance of good governance practices in relationship to effective organizational performance and accountability for efficient expenditure of public funds.[10]

There is a long held conventional wisdom that good governance practices are important to effective organizational performance. There is increasing research evidence to support this intuitive notion although, for the most part, it suggests correlative rather than causal relationships.[11] "A study conducted by the Conference Board of Canada three years after the publication of the TSE guidelines found that those corporations which had implemented the best governance practices have attained the best results on key performance criteria."[12]

A.3   Strengthening Governance Capacity in the Voluntary and Non-Profit Sectors

This report has been produced as part of a larger project intended to 'Strengthen Governance Capacity in Voluntary/Non-profit organizations. This and the larger project explore the relationship between good governance and organizational effectiveness. They consider factors such as

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[6] 'Working Together: A Government of Canada/Voluntary Sector Joint Initiative', Report of the Joint Tables. Ottawa August 1999.
[7] 'Cadbury Report', London Stock Exchange 1992.
[8] Toronto Stock Exchange Committee on Corporate Governance in Canada, *Where were the Directors? Guidelines for Improved Corporate Governance in Canada* (Dey Report) *Toronto. Dec. 1994.*
[9] Broadbent Report 1999.
[10] See Federal and Provincial Auditors' General websites for recent reports.
[11] See Bibliography for Green & Greisinger, Herman & Renz, Holland & Jackson and Murray & Bradshaw.
[12] Cited in Broadbent 1999, p 23.

variations in ownership structure, accountability requirements, organizational size, decision-making processes, critical transitional phases, the degree of latitude a board has in setting its mandate, and organizational stability and adaptability. The research is also intended to develop a new conceptual framework that will help boards and executive directors better understand what kinds of governance policies and practices might be best suited to their particular organization.

Our research provides a base of information drawn from actual experiences of non-profit organizations operating within the everyday realities of organizational life. Twenty case studies were completed for this study. The summaries found in Appendix B of this paper provide examples of governance practices that work well and other, more problematic, practices that should be avoided.

Although there have been case studies on corporate governance in the 'for-profit' sector in Canada, there has not been an attempt of comparable significance to develop 'lessons learned' from case studies in the non-profit sector. While there is somewhat a richer case study literature on organizations in the U.S., there has been very little examination of the key relationship between ownership structure, accountability and governance practices. The relationship between these elements is an important dimension of this research project.

A.4   Governance, Good Governance and Management

Governance in the voluntary sector has been defined as "the processes and structures that an organization uses to direct and manage its general operations and program activities".[13] It is defined for our purposes as "the structures, functions (*responsibilities*), processes (*practices*) and organizational traditions that the board of an organization uses to ensure accomplishment of the organizational mission. These determine how power is exercised, how decisions are taken, how stakeholders have their say and how decision-makers are held to account."[14]

Governance itself has no normative content. *Good governance* is about both achieving desired results and achieving them in the right way; that is, in a way consistent with the normative values of democracy and social justice. This is particularly important in the voluntary sector where values play a very important role in determining both organizational purpose and style of operation.

Good governance, in the view of this author, is about *Vision* (envisioning the future), *Direction* (setting goals and providing a general 'road map'), *Resources* (securing the resources necessary to achieve the goals or reach the destination), *Monitoring* (periodically ensuring that the organizational vehicle is well-maintained and progressing, within legal limits, toward its destination) and *Accountability* (ensuring efficient use of resources; reporting progress and detours to stakeholders)(VDRMA). This view is drawn from and supported by the normative literature on organizational governance.

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[13] Broadbent, op. cit.

[14] Plumptre, Tim & Graham, John, "Governance in Transition: Issues and Challenges for Canada", Discussion paper, Institute on Governance. Ottawa Dec. 3, 1999.

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│        Good Governance is about     │
│           • Vision                  │
│           • Direction               │
│           • Resources               │
│           • Monitoring              │
│           • Accountability          │
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Management, not governance, is about steering the organizational vehicle. It is about knowing the road map, examining alternate routes, selecting the course, ensuring efficient resource consumption and good vehicle maintenance, regularly assessing progress and travel conditions, adjusting course when advisable, and providing periodic travel reports to the crew, passengers, board and other stakeholders.

A.5   The Policy Governance Model

John Carver vaulted to fame as a 'governance guru' in the early 1990's with the publication and promotion of his 'Policy Governance' model.[15] Private, public and voluntary sector boards across North America have tried, with varied degrees of success, to implement this model or adapt it to their own organizational needs and context. Many have expressed frustration that 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. Carver assures his model is generally applicable and will benefit any organization in which it is properly implemented.

There is general consensus in the voluntary sector that the promotion of the 'Carver model' over the past decade has usefully focused attention on governance in the sector. However, there is also substantial concern that this promotion of a 'one size fits all' model has drawn attention away from alternative models more suitable to many voluntary organizations. This is especially true of smaller organizations where relationships between the board, staff, volunteers and consumers may need to be more collaborative.

This debate has been an important backdrop to our decision to search for alternative governance models, and place these within a coherent framework for understanding which governance approaches might be most appropriate for various organizational contexts.

B.   PROJECT OVERVIEW

B.1   Study Objectives

The objectives of the larger study were:

   ➢ To learn from organizations doing a particularly good job of governance as well as derive lessons from organizations that have experienced major problems in governance
   ➢ To develop a better understanding of how governance practices in voluntary organizations need to be adapted to take into account factors such as:

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[15] Carver, John, <u>Boards That Make a Difference</u> Jossey-Bass, San Francisco 1990..

- Who 'owns' the organization
- To whom it is accountable — formally and informally
- Differences in the degree of control over policy-making
- Its structure (local, regional, national) and context (geographic, institutional, linguistic, mandate, other)
- Critical phases in organizational life
- Its decision-making processes
- How the organization seeks to balance the need for stability with the need to adapt in a changing environment
- How policy-making responsibilities are shared between staff and Board members

➢ To identify alternative governance models available to boards and create a coherent framework for understanding these models;

➢ To provide support to boards and executive directors in understanding what governance practices and policies may best suit or serve their particular organization.

B.2   Hypotheses

The case studies were intended to assist us in testing a set of hypotheses about factors influencing the selection of appropriate governance models, good governance and organizational effectiveness.

We suggested the following factors influence the approach to governance taken by a particular board: how boards are selected (ownership structure); form of incorporation; legislative mandate; organizational history; developmental phase; size and complexity of the organization; financial circumstances; knowledge and resources; mission; geographic scope or jurisdiction; having a board member (chair) assume the CEO responsibilities; and, critical events or transitional phases such as turnover of the CEO, major changes in the board, major public controversy, and intense labour/management conflicts.

We also postulated that there is a positive correlation between certain "good governance" practices and organizational effectiveness. High performance boards, we postulated, are more likely to have a high degree of involvement in strategic planning and setting the organization's mission; a process for monitoring achievement of objectives; a high degree of key stakeholder agreement on mission and values; clear lines of accountability; good teamwork; effective use of resources; financial stability; respect for organizational norms; a positive relationship with key stakeholders; a good balance between stability and flexible response to environmental changes; and, perceived legitimacy and credibility.

B.3   Governance Models

A '*Governance Model*' is defined here as a "distinctive set or cluster of governance structures, responsibilities (functions) and processes (practices) that are logically consistent with one another." *Structure* refers to the parameters for selection and operation of the board established by legislation, regulations, bylaws and policies. *Responsibilities* (specific tasks or functions) refers to the what of governance. *Processes* (practices) refers to how governance functions are exercised.

Governance models vary according to how a board is structured, how responsibilities are distributed between board, management and staff, and in the processes used for board development, management and decision-making.

The case studies conducted in this project tested and refined the following hypothetical 'Governance Models' perceived as having relatively discreet characteristics:

1. **Operational** – The Board does the work of the organization as well as governs it. This is typical of a board in the 'founding' stage and organizations, such as service clubs, that have no staff and must rely largely on board members and other volunteers to achieve their aims.
2. **Collective** – The Board and staff are involved in 'single team' decision-making about governance and the work of the organization; board members may be involved in some of the work either in services or management functions.
3. **Management** – The Board manages operations but may have a staff coordinator. Board members actively manage finances, personnel, service delivery, etc.
4. **Traditional** – The Board governs and oversees operations through committees but delegates the management functions to the CEO. Committees are used to process information for the board and sometimes do the work of the board. The CEO may have a primary reporting relationship to the Board through the Chair.
5. **Policy Governance** (Carver) – The Board governs through policies that establish organizational aims (ENDS), governance approach, management limitations and define the Board/CEO relationship. It does not use committees. The CEO reports to the full board.
6. **Corporate** – The CEO is a non-voting member of the Board, carries substantial influence over policy-making, is viewed as a full partner with the board and has a relatively free hand at managing to achieve objectives established by the Board. Committees are used for monitoring/auditing performance of the board, CEO and organization. Board members are selected for community profile, capacity to 'open doors' for the organization and may be used for selected tasks in their area of expertise.
7. **Constituent Representational** – An approach used by publicly elected officials, federations or other constituency elected boards whose primary responsibility is to balance the interests of their constituents against the best interests of the overall organization. They may, and in the case of publicly elected officials do, carry grievance resolution/ombudsman functions. They may, as in the case of school boards, have prescribed responsibilities for public consultation and human resources.

B.4   Methodology

A review of the relevant normative literature on non-profit governance provided the foundation for this project. A '*Synopsis of Governance Models and Frameworks*' was extracted from this literature. A '*Governance Self-Assessment Checklist*' (GSAC) and '*Case Study Methodology*' were also developed, tested and refined through the conduct of two 'pilot' case studies. Finally, a new framework of '*Governance Models*' was developed for testing and validation through the case study process.

The primary focus of the case studies was on current governance practices. However, the organization's history and an analysis of financial trends over the past ten years were used to provide context and additional anecdotal material for the studies.

The actual process for studying individual organizations involved:
- A review of relevant documentation (bylaws, annual reports, financial and operational audits, strategic planning documents, minutes of board or annual meetings)
- Completion of the GSAC by board members and senior staff and analysis of responses
- Interviews with a sample of board members, management, union leaders and a representative of the primary funding agency
- A final report with recommendations for the organization.

Some of the key aspects of governance examined in the case studies were as follows: *Board Structure and Selection Process; Board Development and Management; Conflict and Trust Issues; Organizational Size and Developmental Stage; Clarity of Mission, Roles and Objectives; Board/CEO relationships; Financial Circumstances; Adequacy of Information, Performance Monitoring and Accountability Systems; Transparency and Effectiveness of Decision-Making Processes; Leadership Capacity; Management of Critical Events; Organizational Effectiveness, Stability, Adaptability and Flexibility.*

B.5   Governance Self-Assessment Checklist

The Governance Self-Assessment Checklist (GSAC) was developed to assist boards in identifying strengths and weaknesses in governance structure and processes, and suggest priorities for further attention. It contains some 150 items identified as factors in the performance of a non-profit board of directors that are perceived to contribute to the effectiveness of the organization they govern. These factors are drawn from a survey of the research and normative literature on governance of nonprofit organizations and a review of other rating scales.

The GSAC examines aspects of **Board Structure** (board form and operating parameters), **Board Responsibilities** (the what of governance), **Board Processes** (how governance functions are exercised) and **Board Culture** (board dynamics/organizational context). These factors are interrelated with each other and with specific measures for **Board Effectiveness**.

B.6   Criteria for Selecting Case Study Subjects

An attempt was made to include a diverse number of ownership structures and governance models from several jurisdictions and with primary funding from at least two levels of government in the case study sample. Case studies included four national organizations, one provincial crown corporation, thirteen local non-profit organizations (one of these a crown agency) and the two more 'generic' studies noted above.

The selection process was influenced to a considerable extent by each organization's willingness to participate, ease of access and funder priorities. The studies, though concentrated in Ontario, were focused on organizations in six provinces and included the pan-Canadian School Board study. Local organizations ranged in size from the rural Saskatchewan Lions Club with no operating

budget to the Kinark Child and Family Services with a 1999 operating budget of $17.4 million. The frequency with which organizations of various sizes were represented in our sample is displayed in Table 1 below. We recognize this is not representative of the two-thirds of registered charities that have annual revenues of less than $100,000. However, we believe the fundamentals of good governance discovered in this research can be transposed to these smaller organizations with simple attention to the *Keys to Success* identified in section **C.4** of this report.

Note: Seventeen of the studies were on the governance of individual agencies. One of these, a Child Welfare Agency (CWA), was a composite built primarily on the experiences of one organization but drawing instructive lessons from three other organizations with a similar mandate. The names of two of the other organizations (SUAP and ACL) have been changed to protect the identity of the organizations. Two of the case studies (Saskatchewan Health Districts and Canadian School Boards) focused on larger systems. Another case study focused on governance issues surrounding the controversial management of the B.C. Fast Ferries Project. Each of these latter three drew heavily on published reports. The Faculty of the University of Windsor, using a retrospective analysis including a survey and interviews with former board members, conducted a study on the Windsor Group Therapy Project, an organization that was dissolved in 2000 after more than forty years of community service.

Table 1 - Size of Organizations
In $ Millions (000,000's)

Budget	No. of Cases
<.250	1
.250 to 1.0	6
1.0 to 3.5	7
3.5 to 10.0	2
10.0 to 20.0	1
>100.0	3*

* BC Ferries and systems studies of Saskatchewan Health Districts and Canadian School Boards.

A profile of the organizations studied is provided in Table 2 below. Brief summaries of the case study reports are provided in Appendix A. The a<u>bbreviations</u> used throughout this report to refer to specific organizations/case studies are also contained in Table 2 and Appendix A. Readers are encouraged to review the profile and the case study summaries before reviewing our research findings. (*Note: Some care should be exercised in generalizing the findings from this research because of the small sample size. However, our findings are consistent with those of other research.*)

Table 2 – Profile of Case Study Organizations

Name	Mission	1999 Budget	Governance Models Primary/Secondary/etc.	Board Selection	Incorporated
1. Lions Club Saskatchewan	Community Service (fundraising/events)	No $s for operating	Operational	Membership elected	1960
2. Kids First (CAYFO) Ont.	Advance interests of Children & Youth	$359K	Traditional	Self-regenerating	1996
3. Volunteer Ottawa, - Ont.	Volunteer Recruitment, training & referral	$535K	Traditional	Elected by Member organizations	1955
4. WGTP, Windsor, Ontario	Windsor Group Therapy Project (Children's Mental Health Services)	$630k	Traditional	Self-regenerating, Member elected	1957 to 2000
5. Amethyst Ottawa, Ont.	Women's Addiction Treatment	$684k	Collective, Traditional	Self-Regenerating	1979
6. SUAP** Eastern Canada	Service for Urban Aboriginal Persons	$840k	Traditional/Management	Member elected, open nomination	1960's
7. NFCM Montreal, P.Q.	Counseling, Referral, Recreation, Adjustment	$1.1M	Traditional, Management, Policy Governance	Member elected, open nomination	1975
8. CICH National Org. Ottawa, Canada	Research, Education & Child Health Promotion & Policy Development	$1.3M	Traditional, Policy Governance, Operational	Self-regenerating	1977
9. CCSD National Org. Ottawa, Canada	Research, Public Education, Policy Development & Promotion	$1.8M	Policy Governance, Operational	Elected by members to represent 5 Regions	1920
10. Cdn. AIDS Society, National,Ottawa	Education, Advocacy, Health Promotion, Member Services	$2.1M	Policy Gov, Constituent Representational	Elected by members – 5 Regions	1987
11. Osteo Soc Can. Toronto	Education, Support, Advocacy, Research	$2.3M	Traditional	Self-regenerating	1982
12.Regina Health Clinic, Saskatchewan	Comprehensive Health services co-operative	$2.4M	Traditional, Policy Governance	Members elect, Member owned Nom Committee	1962
13. CWA ** Composite	Child Welfare	$3.5M	Traditional, Management	Member elected, Funder Appointed	1952
14. York CAS Toronto, Ont	Child Protection	$8M	Traditional, Policy Governance	Elected by membership, Nom Cttee	1935
15. ACL ** Western Canada	Services to Developmentally Disabled	$10M	Traditional, Management	Elected by (Parent/ comm) Members	Early 1970's
16. CFSA Region 13 Alberta	Child welfare, day care and other services to children & families	$11.9M	Policy Governance	Funder Appointed	1998
17.Kinark CFS Toronto	Child & Family Mental Health Service	$17.4M	Traditional , Corporate, Policy Governance	Self-regenerating	1970
18. BC Ferries	Focus on Fast Ferries project	$100's of Millions	Corporate, Advisory	Funder Appointed	N/A
19. Sask. Health Districts	Comprehensive Health Services to Public	$1.4 Billion	Traditional, Corporate, Policy Governance Hybrids	Elected/Funder Appointed	1992 >
20. School Boards - Canada	Public Education	$Billions	Constituent Representational, Traditional	Publicly Elected	1800's >

** Name changed to protect the identity of the organization

MAJOR FINDINGS

C.1 Summary

The case studies generally affirmed the research hypotheses developed for this project. They showed evidence of all seven of our hypothesized governance models in use. However, three quarters of the organizations applied 'practices derived from different governance models to different aspects of their mission or primary responsibilities'. For example, boards were more likely to take a delegated 'Policy Governance' approach to day-to-day service operations, human resources and financial management than to social policy development. They were more likely to take a 'hands-on' or 'operational' approach in advocacy and fundraising. Those that used a single approach generally relied on the Traditional governance model.

There appears to have been significant growth, over the past decade, of interest in and knowledge about the importance of good governance and accountability practices in all boards studied. Much of this can be credited to the broad dissemination and discussion of the Carver 'Policy Governance' model and to increased demand for accountability by funders and the general public. Board members interviewed for the case studies expressed strong commitment to improving their governance practices. However, concerns were expressed repeatedly about the dearth of resources, templates and tools available to assist them in achieving such improvements. Many of those organizations that had made the most significant refinements in their practices had either attempted to implement or to adapt the Carver model, or experienced real difficulty in finding alternative models and resources.

C.2 Major Concerns of Boards

Concerns were most commonly expressed with respect to the following areas:

The Board:

> ➢ Director liability;
> ➢ Evolving governance practices from an 'operational' to a 'policy' focus;
> ➢ Evaluating effectiveness of governance and services; increasing the 'results-based' focus;
> ➢ Adding value (fully exploiting the talents of board members);
> ➢ Board members not 'pulling their weight';
> ➢ Improving succession planning for both board and staff;
> ➢ Community criticism; particularly of concern to directors of organizations with a statutory mandate (health, education, child protection);
> ➢ Developing clarity between the respective roles of board and staff;
> ➢ Increasing the board's involvement in advocacy;
> ➢ Excessive demands on the executive director;
> ➢ Dealing with volunteer fatigue and staff burnout;

Planning:

> ➢ Improved long-term planning;
> ➢ Maintaining currency of mandates in view of changes in community demographics and infrastructure;

> ➢ Increased pressure for community service integration and development of integrated service delivery models;
> ➢ Building stronger relationships and communicating more effectively with key internal and external stakeholders;
> ➢ Collaboration with organizations that often compete for the same scarce project funds;
> ➢ Effecting a balance between broad-based input and efficient decision-making;

Finances:

> ➢ Maintaining financial viability (strengthening, stabilizing, broadening the funding base);
> ➢ Responding to increasing service demand with shrinking financial resources;
> ➢ Withdrawal of core or sustaining funding from national organizations;
> ➢ Training board members to have a working understanding of financial statements;
> ➢ Adopting business-like and entrepreneurial practices to ensure efficiency and diversify revenues without: (i.) alienating staff who have a human services values set, or (ii.) jeopardizing non-profit status;
> ➢ Economical provision of services with an increasingly unionized workforce.

C.3 Signs a Board May Be in Trouble – Governance Don'ts

Boards and organizations heading for serious trouble are almost certain to be characterized by one or more of the following warning signs. These were evident in one or more of those organizations in our sample that had experienced serious problems in governance at some point during their recent history:

Human Resources:

> ➢ Rapid turnover of CEO's (this was an unmistakable sign in four cases)
> ➢ Major turnover of board members
> ➢ Difficulty recruiting or retaining credible board members

Financial and Organizational Performance:

> ➢ Chronic unplanned and/or unmanaged deficits
> ➢ Rapid depletion of reserve funds
> ➢ Call for outside audit or operational review by funders or other key stakeholders
> ➢ Persistent failure to meet individual or organizational performance targets

Meetings:

> ➢ Poor attendance at board and committee meetings
> ➢ Low level of participation in discussions at meetings
> ➢ Meetings poorly managed; lack of focus, agendas circulated late, members unprepared

Board Culture:

> ➢ Underground communications. Lots of 'corridor talk' and political maneuvering outside the meetings
> ➢ Distrust among board members or between the board and CEO not being addressed
> ➢ Poor communication between the CEO and board chair or the full board

> ➢ Unresolved conflicts within the board
> ➢ Conflict of interest issues not being confronted
> ➢ Board members feeling too far removed from 'what's going on in the organization'
> ➢ Insiders and outsiders; board dividing into factions
> ➢ Growing minority of disaffected board members

Decision-Making:

> ➢ Regular 'rubber-stamping' of CEO recommendations without meaningful debate
> ➢ Preoccupation with operational detail rather than 'big picture' issues
> ➢ Board interference in operational detail…particularly personnel and collective bargaining
> ➢ Poor communication with key stakeholders
> ➢ Decision deadlock or paralysis
> ➢ Board members ignoring or circumventing Board policies and decisions
> ➢ CEO ignoring or circumventing Board policies and decisions

C.4   Keys to Success – Governance Do's

This series of case studies also affirmed the importance of the following characteristics of high performing boards in influencing strong organizational performance. Boards are encouraged to ensure:

1. Strong board and staff leadership.
2. A positive working relationship between the executive director and the board characterized by:

> - Mutual respect;
> - Intellectual flexibility;
> - Willingness to ask and answer tough questions;
> - Clear understanding and respect for the boundaries between staff and board roles;
> - A constructive process for dealing with areas of overlap.

3. Clarity in the respective roles, relationships and expectations of the Board, individual board members and the CEO. *Note: Clarity of roles and the expectations and motivations that board members bring to them appeared to be at least as important to good governance and organizational effectiveness as the particular governance model employed.*
4. A high level of key stakeholder agreement on organizational values, mission and objectives.
5. Respect for organizational norms and board decisions; playing by the rules and as a team.
6. Good board development practices (orientation, training, team-building, sound board member recruitment practices, good meeting management).
7. Regular assessment of the effectiveness of these practices, the performance of the board, its individual members and the CEO.
8. Consensus or near-consensus decision-making rather than majority rule.
9. A high level of trust and teamwork & a low level of (interpersonal/role) conflict.
10. Constructive confrontation/resolution of conflicts within the board, between the board and CEO and conflicts of interest on the part of board members.
11. A good balance between organizational stability and adaptation to a constantly changing environment.

12. Effective management of meetings and board work (a board work plan, agendas circulated sufficiently in advance of meetings, board members well prepared, effective chairing, respect for rules of order, fact-based consensus or 'near consensus' decision-making)

D. FACTORS INFLUENCING GOVERNANCE PRACTICES

a) Ownership

DO ensure that the 'ownership' structure of your organization is clear!
DO ensure full and transparent accountability to those who select the board and fund the organization!

Ownership is a concept not generally used in the literature on non-profit organizations. Ownership of 'non-profit' organizations, as distinct from 'for-profit' enterprises, does not include the right to distribute profits or accrue personal financial gains to the Directors or shareholders. Non-profits have members and stakeholders rather than 'shareholders'. The broader public interest missions of non-profits also contrast with the narrower focus of corporate profit making. Non-profits are subject to much greater scrutiny from funding authorities, the media and the general public than for-profit corporations typically receive from their shareholders. The term 'ownership' is used here to identify that group (members or Directors) who carry the public trust vested in a non-profit organization.

Virtually all interviewees acknowledged ownership as an important and interesting dimension of governance, but one that few respondents had given much prior consideration. Ownership implies legal control. While it also implies accountability, the latter concept extends beyond the legal 'owners' to include contractual obligations to funders, moral responsibility to consumers and trust obligations to the general public and other key stakeholders.

Primary 'ownership' was most often associated, in the minds of interviewees, with *how the board is selected*. It was seen as joint staff/board ownership in the collective; member ownership in those organizations with an active (rather than nominal) membership base; board (concentrated) ownership where boards were self-regenerating; funder ownership where the board was appointed by funders; and, taxpayer ownership where boards were publicly elected. Identification of 'owners' and lines of accountability were more confused in organizations with more than one method for selecting board members, such as the Saskatchewan Health Districts, the York CAS and the Child Welfare Agency (CWA).

Secondary ownership (and accountability) was ascribed most often to funders, consumers of a service, the general public and other key stakeholders, such as staff and collateral organizations with a direct link or vested interest in the organization's work.

Ownership and accountability issues were most confused in the B.C. Fast Ferries project where the provincial auditor concluded: "the main cause of the problems of the fast ferry project lies in

governance".[16] Lack of clarity in roles, responsibilities and authority contributed to what the media repeatedly referred to as the 'B.C. Ferries fiasco'. There were six inter-related legal entities involved in the decision-making on this project often undermining or usurping the authority of others. Ultimate ownership of the B.C. Ferries Corporation and its construction subsidiary, Catamaran Ferries International (CFI), was vested in the Provincial Cabinet and government. "The Act setting up BC Ferries provides for cabinet, not the corporation's board, to make most key decisions…the corporation does not have control over most significant decisions that affect its financial and operating performance."[17]

Primary ownership proved to be an important factor for selecting a governance model in the collective organizational form (Amethyst Women's Addiction Centre), and in organizations with a strong, active membership base such as the Regina Community Health co-operative, the two Aboriginal service organizations and the Canadian AIDS Society. Ownership also proved to be an important factor for selecting a governance model in the 'operational' Lions Club, the two fonder-appointed boards (BC Ferries and Alberta CFSA Region 13) and in elected school boards. While ownership was an important factor in influencing the approach to governance in about 40% of the cases, it proved somewhat less influential than had been initially anticipated.

b)   Board Selection Processes

> **DON'T use different processes to select board members for the same board if this can at all be avoided!**

The process used to select board members can greatly affect ownership and accountability. Individuals whose board membership is derived from different selection processes (e.g. election by members, appointment by funders) do not begin their terms of office on common ground. Such distinctions can create an immediate climate of suspicion and distrust between the groups. This may dissipate somewhat as they work together, but evidence of this in our case studies was not strong.

The review of the governance of Saskatchewan Health Districts suggested appointed members were perceived by informants as having more influence with, and being more subject to the influence of, the government that appointed them. Elected members were perceived as having greater latitude to criticize government policies publicly but having less informal influence with the government than appointed members. The 'enhanced legitimacy' attributed to their elected status may, on the other hand, give them undue dominance and create a risk of greater conflict.

Elected officials generally have more experience in public speaking. They also often have a broader network of contacts with which to exert informal influence on the organization. They consequently often have undue influence in persuading other board members to their point of view as they did in the CWA case. Their 'elected' status gave them an enhanced legitimacy and credibility in the minds of their board colleagues as well as other organizational stakeholders; most importantly in this case, the funding authorities.

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[16]Auditor General of B.C., 1999/2000 Report 5, Highlights p 5.
[17]Auditor General of B.C., 1999/2000 Report 5, Highlights p 8.

The 'Constituent Representational' approach to governance typically involves elected members intervening in operational matters (complaints) on behalf of 'constituents' who might be staff, clients or other interested (voting) members of the community or federation. In the CWA case, this approach tended to conflict with the hybrid 'Policy Governance' approach approved by the board.

c) Form of Incorporation and Legislative Mandate

> **DO ensure that governance and accountability practices take account of the form of incorporation and legislative mandate!**

Incorporation under co-operatives or special purposes legislation proved to have significant influence on the governance model of the organization. The membership control provisions for co-operatives had its most significant impact on the nominating process. Organizations mandated by special purposes legislation were more likely to have key aspects of their governance structure and bylaws guided by the legislation, regulations or Ministerial directives provided under that mandate.

School boards are subject to provincially prescribed processes for public consultation about school closures and may be required to approve hiring and firing of teachers. This leads school boards to incorporate many elements of the 'Constituent Representational' model in their approach to governance. The parameters established for the operation of the Alberta Child and Family Services Authority as a crown agency clearly directed it to a 'Policy Governance' mode. The very active board involvement in strategic and operational planning during the developmental phase of CFSA Region 13 made the transition to a 'Policy Governance' model more difficult.

The York CAS, designated under Ontario child protection legislation, was placed under Ministerial terms and conditions of operation, leading its board toward a 'Management' model of governance and placing significant constraints on its decision-making latitude. The role confusion and perception of ultimate accountability to the Minister in the B.C. Ferries Crown Corporation case certainly affected the manner in which the Board did, or did not, exercise its responsibilities. However, in both these latter cases, the approach appears to have resulted as much from the particular circumstances than a general consequence of the form of incorporation or legislative mandate.

d) Developmental Stage

> **DO recognize that organizations may require different governance models at different developmental stages!**
> **DO adapt your governance approach to the current needs of the organization!**
> **DON'T get mired in past practices that no longer suit the current context!**

The developmental stage of an organization was revealed as an important determinant of the governance model in the founding or organizing phase of the Regina Community Health Association, Kids First, the Alberta CFSA and the Association for Community Living. In each

instance the board had a high degree of operational involvement in creating the bylaws and organizational infrastructure in the early developmental stages.

The board of the Regina Community Health Association, for example, was actively involved in these tasks but also involved in providing capital financing, renovation of facilities, developing patient record systems and supplying reception services. Similarly, the board of Kids First was heavily engaged in public education, advocacy, fundraising and planning of special events. The board of the Association for Community Living (ACL) was instrumental in provision of support services for parents and their developmentally handicapped children, and in advocating for and managing services as resources became more available.

The struggle to move from an operational to a more traditional mode of governance was most acute in the ACL. These examples affirm some of the unique features of the 'founding' stage postulated in Wood's 'life cycle model'.[18]

Long-standing local Chapters of the Osteoporosis Society, on the other hand, continue to function at an operational level (only two of seven had any staff support at all), as does the forty-year old Lions club which has always relied exclusively on volunteer effort to conduct its operations.

e) Size and Complexity

> **DON'T engage in governance practices that are not suitable for the current size or complexity of the organization!**

The size and complexity of an organization was by far the most significant determinant of the governance model employed by the organizations studied. The case studies affirmed our hypothesis that the 'Traditional', 'Policy Governance' and 'Corporate' models are more appropriate for and more likely to be adopted by boards of larger and more complex organizations reliant on professional management and staff. 'Operational', 'Collective' and 'Management' models were affirmed as more appropriate for smaller organizations with fewer staff resources.

f) Geographic Jurisdiction

> **DO tailor your governance practices to take account of the different realities of national and provincial versus local organizations!**

Similarly, national organizations whose board members were drawn from various regions across the country gravitated appropriately to hybrid 'Traditional'/'Policy Governance' models due, in part, to the impracticality of more hands-on operational involvement. The fact that national organizations seldom have the resources to bring their boards together more than two or three times a year mitigates against extensive operational involvement. A notable exception to this was found in the Canadian Institute for Child Health (CICH) that had the benefit of a long-serving board chair with the personal resources and professional expertise to make significant contributions to

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[18] Wood, Miriam M., 'Is Governing Board Behavior Cyclical?' *Nonprofit Management and Leadership* 3, 2 (winter 1992: 143-150).

policy development functions and general management oversight. However, that organization has now moved towards a 'Policy Governance' hybrid as well, perhaps as part of a journey toward a 'Corporate' governance model.

g) Financial Circumstances

> **DO adopt an entrepreneurial approach to the business of your non-profit but carefully 'measure' financial risks!**
> **DO scrutinize financial statements thoroughly and have a clear understanding of your non-profit's current financial realities, past trends and future projections!**

Financial circumstances, apart from the size of budget, appear not to have been a significant determinant of the governance model. Serious financial crises experienced by several of the organizations in our sample did prompt greater board scrutiny of their financial management. Repeated deficits are often used as a proxy for ineffective governance. However, the evidence from these studies suggests that more 'entrepreneurial' boards that strategically plan and manage deficits may be as effective as, or more effective than, those that are more conservative financial stewards.

Boards that experienced serious financial crises had either become somewhat complacent in their reliance on core funding or less vigilant than necessary in their scrutiny of reports from management and auditors. Many boards demonstrated a tendency to leave financial matters to a Finance Committee or Treasurer. One seasoned former board chair suggested that one of the most critical, and often overlooked, aspects of board orientation is development of board member competence in understanding financial statements.

h) Mission

The mission of non-profit boards generally falls into one or more of the following categories:
- Services to the public (health care, social services, education, recreation, etc.)
- Services to organizational or professional members (including accreditation, regulation, professional education, labor relations, etc.)
- Research
- Public Policy Development
- Education
- Advocacy
- Fundraising
- Community Development

> **DO recognize that different governance practices may be suitable for different aspects of your organization's mission or responsibilities!**

Our research affirms the hypothesis that 'most boards employ a mixture of practices derived from different governance models (linked to different aspects of their mission or responsibilities) in their

particular approach to governance'. The specific mission itself did not appear as a significant variable in determining which particular governance model was selected. However, it did affect how boards might attend to specific aspects of their responsibilities. For example, boards whose members had a strong personal or professional interest in public policy development tended, historically, to pay less attention to other aspects of their governance responsibilities such as financial stewardship and performance monitoring.

i) Critical Events and Transitional Phases

> **DON'T abandon approved governance practices when managing critical events! DO manage critical events with a view to the future! Actions today can either restrict or broaden your tomorrow's options.**

Critical events and transitional phases (organizational milestones) include legal incorporation; recruitment of first staff; significant growth or downsizing in staff or budget; substantive change in mandate; prospective merger with another organization; attempts to make significant shifts in organizational culture; loss of key board members; turnover of significant numbers of board members; turnover in the CEO position; major public controversy; major external or internal conflict; and, significant changes in the financial, political or policy environment.

Consumer-owned organizations (which begin as self-help, advocacy networks) and collectives (which employed the staff who started the organization) appeared to have particular difficulty in making the transition to the alternate governance models demanded by growth in size or public accountability.

Two of the national organizations studied had experienced serious financial crises in the late 1980's and early 1990's as a result of depletion of reserve funds and accumulation of substantial debt. This can be attributed in large measure to the failure of the boards and management to provide the financial oversight that due diligence requirements would suggest was necessary. Nevertheless, in each instance, the boards were able to regroup and develop creative strategies for leaner and more entrepreneurial operations.

Successive (and excessive) turnover of chief executive officers was also reported in five of the cases. This instability in staff leadership caused considerable turmoil in the organizations. This was caused by financial crises coincident with boards that were either out of touch with the organization's finances, or were overly involved in operational matters. This type of experience leaves an indelible residue in the organizational culture. Recovery from such turmoil typically takes many years.

Nevertheless, the case studies reported here demonstrate that volunteer boards have remarkable resiliency and a tremendous capacity to respond creatively and constructively to crises and major transitional events. In most cases, this required some combination of the introduction of new board members, a shift in power to a 'new guard', commitment to improved governance practices, and a strengthened partnership with a new CEO.

However, boards are not immune from <u>generating</u> crises themselves as they did in the Service to Urban Aboriginal Persons (SUAP), the York CAS, the Child Welfare Agency, the Association for Community Living and the Calgary Board of Education.[19]

j) Organizational History

> **DON'T get stuck in past governance practices when transition to a new organizational context demands change!**

The case studies reveal that boards experience difficulty in giving up past practices in favor of new approaches to governance. This became particularly evident as we examined the historical evolution of the organizations in our case study sample. The greatest difficulty in escaping past practices was moving from the intensive operational involvement of board members in the early phases of the organization to governance in the context of growing financial and staff resources. Those practices, which may once have been appropriate, no longer served the organizations well in this new context. The second was in returning to a traditional model of governance after the more hands-on 'operational' approach that <u>may</u> be demanded for effective crisis management.

The '*we've always done it this way*' complacency inherent in organizations where things are going fairly well is a real enemy of innovation, flexibility and adaptation to a continually changing environment. '*If it isn't broken, don't fix it*' is an adage that similarly discourages regular introspection and environmental scanning as well as good organizational maintenance practices.

k) Lack of Knowledge and Resources

> **DO recruit board members who are interested in governance as well as committed to the organizational mission!**
> **DO provide good orientation to board members on both the organization *and* their governance responsibilities!**
> **DO research alternative governance options and understand their implications!**
> **DO seek resources to support the governance function and outcomes evaluation!**

governance and often were not motivated to serve the boards by an interest in governance. Board members from two of the national organizations were historically more interested in public policy development than in governance or financial stewardship. Board members of local 'service' organizations frequently expressed more interest in the program offerings of the organization than in the primary responsibilities of a board — governance and stewardship.

The growing public interest in governance and accountability in the early 1990's left many organizations scrambling to find information and resources to use in improving their governance practices. Many boards attempted adaptations of the Carver 'Policy Governance' model with mixed success. Alternatives to this model are not well known, well articulated or broadly publicized. Interviewees expressed a real interest in access to alternative models and simple tools that would assist them in governing more effectively.

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[19] Referenced in the Case Study on School Board Governance in Canada.

The lack of financial resources to support the governance function also surfaced as a concern in the case studies. Members of non-profit boards are unpaid volunteers. However, there are costs associated with bringing them together for meetings. This had the effect of decreasing the affordable size of national boards, perhaps making them less than optimally representative of the diverse Canadian mosaic. On the other hand, national boards ranged in size from a low of ten to a high of seventeen. Boards larger than that tend to become less manageable in any event.

The dearth of financial resources also makes it very difficult for boards to fulfill their responsibility to monitor, evaluate and account for the efficient and effective performance of their organizations. The cost of methodologically sound outcome evaluation is also very high. Furthermore, the nature of the business of many non-profits makes it very difficult to establish sound outcome measures. Consequently, most organizations that do attempt evaluation must resort to input and process evaluations financed out of meager existing administrative resources. This is clearly an issue that needs greater attention from funders and public policy makers.

l) Personal or Political Agendas

> **DON'T let personal or political agendas interfere with the board's responsibility to serve the best interests of the organization!**
> **DO address 'conflicts of interest' directly and constructively!**
> **DO address and mange conflicts within the board with tactful determination!**

Personal or political agendas, we hypothesized, may motivate board members, or even funders, to subordinate the best interests of the organization to their own. Evidence of this was discovered in several of the case studies.

It is widely accepted that service on high profile non-profit boards is often used as a 'stepping stone' to local, provincial or federal political office. This is an integral dimension of the development of civic leadership in a democratic society. School Board trustees were reported, in some instances, to attend disproportionately to the interests of their constituents in order to serve their own future electoral ambitions.

The most blatant example of political agendas working against the best interests of an organization is found in the B.C. Fast Ferries case. Ministerial and Cabinet intervention in this case overrode board decisions to take a more cautious and deliberative approach to assessing the merits of a fast ferry service. Another example is the competition between factions within the SUAP membership that has repeatedly plunged that organization into turmoil.

Several of the cases demonstrated evidence of the personal agendas of some board members leading them to challenge or attempt to unduly influence or overturn management decisions. These were situations in which there appeared to be an obvious conflict of interest. In the case of ACL it involved parent consumers who were members of the board. The CWA situation involved board members attempting to influence selection of relatives for staff positions and contracts with the organization. Municipal politicians on the board of this same agency had strong ties to organized labour. They aligned themselves, to the detriment of the agency, with union interests in a highly conflicted labour/management context.

The SUAP case presented issues of nepotism with board members seeking staff appointments for family and/or friends or contesting their dismissal from staff. A member of another board was a sibling of the Executive Director giving rise to the concern that this might prejudice (favorably or unfavorably) the objectivity of the board member in assessing the Executive Director's performance.

m) Conflicts in Labour/Management Relations

> **DON'T undermine your CEO by interfering in union/management relations, particularly during a period of an open contract with a unionized workforce! DO provide policy guidelines or directives with respect to the management of human resources!**

There is nothing like intense labour/management conflict, even short of a strike, to draw board members into operational or management mode as evident in five of our case studies. The Service to Urban Aboriginal Persons, the York CAS, Amethyst, the Association for Community Living and the Child Welfare Agency each had some history of labour/management conflict. Such conflict was often associated with a struggle for power and control over the organization. The latter two organizations had experienced bitter strikes by unionized staff.

Board members clearly have a responsibility to understand the issues involved in such conflicts. However, inserting themselves in the middle of the conflicts in these cases deprived them of their prima facie credibility as organizational stewards and undermined their Chief Executive Officer. They also abdicated their status as the 'legal employer'. These actions had lasting negative consequences for the organizations.

Nothing is more likely to erode board confidence in the CEO than labour/management conflict. It is often the impetus for board members intervening directly and inappropriately in such conflicts. Such intervention is a public expression of eroding confidence in the CEO and undermines the employer's bargaining position. It is always better to address a confidence issue after the 'dust has settled' rather than in the middle of the storm. Circumstances that would mitigate this advice are difficult to envisage.

n)   A Board Member (or Chair) Assuming the CEO Position

This had occurred with a surprisingly higher frequency (a quarter of the cases) than anticipated. Also surprising was our finding that this was not an unmitigated disaster in every case. In fact, it only proved to have serious negative consequences in one of the cases where the board chair assumed the title but not the actual full-time position. There were two other cases where the board chair became the organization's CEO, and two where another board member stepped into the CEO position.

The board chair assumed the CEO position for an extended period of time in the Service for Urban Aboriginal Persons. This move was of mixed benefit for the organization, and more constructive during the early tenure than during the latter stage. The chair of the Association for Community

Living board twice took leaves of absence from the board and assumed the CEO position for several months at a time. This had a positive impact on labour/management relationships, and community and funder credibility at the time. His return to the position of board chair did, however, create some difficulties in role differentiation with the successive executive directors. A member of the Canadian Institute for Child Health board also assumed interim CEO responsibilities, again with good benefit to the organization. Similarly, a member of the board of the Regina Community Health Association made a successful permanent transition to the CEO role to the benefit of that organization.

> **DO ensure that a board member who assumes the CEO position, even on an interim basis, resigns rather than takes a temporary leave of absence from the board!**
> **DO ensure that a board member who competes for a staff position resigns permanently from the board, whether or not successful in the competition!**

There are some important lessons in this. It can work to the benefit of an organization (particularly during a crisis period) to have a board member, familiar with the organization, assume the CEO responsibilities. The board chair frequently assumes the CEO responsibilities during transition periods in 'for-profit' corporations (or may hold both positions for extended periods). When this occurs in non-profits the individual should resign from the board and not return to it immediately after serving as the CEO. One of the keys to making this transition successful is ensuring that there is a clear separation of roles. A second key is that the board member must know when it's time to move on to other interests and the board should encourage this. It is also critical that a board member with an interest in competing for the CEO job resign immediately from the board and *not return to the board* if unsuccessful in the competition.

E.   Other Important Findings

E.1   Board Structure

➢ *Bylaw provisions* in <u>some cases</u> were *inconsistent with* actual *practice*, inconsistent with 'good' practice, internally inconsistent, or at odds with the Corporations Act:
   o One organization's bylaw permitted staff to be members of the board although the practice had been discontinued;
   o Directors were allowed to be paid for work done for two of the organizations;
   o Provisions for nominating committees were not followed;
   o Committees had been established in another without bylaw authority for this;
   o One organization had a bylaw provision that empowered the CEO to define responsibilities of board officers;
   o One organization permitted proxy voting at board meetings;

- Two had set the quorum for board meetings lower than the majority required by the Corporations Act;
- The bylaws of one organization gave the president extraordinary powers to manage its affairs even though these powers were not intended to be exercised.
➢ Several of the organizations placed no *limit on the number of terms* a director could serve. The typical term for a director in those organizations that did limit terms of service was three years, and the maximum was two consecutive terms. The three-year rotations, when combined with board attrition related to other factors, resulted in *higher turnover levels than desirable* for board continuity.
➢ A majority of the case study organizations expressed the need for further *clarification of the respective roles and responsibilities of the CEO and the board* and exercise of board responsibilities within defined and approved roles.
➢ Four of the boards had attempted seriously to implement the Carver *'Policy Governance' model* and *found* it *difficult* to adhere to in its pure form. Several had adapted some of its key concepts to their own circumstances. The most common concerns were: i. that it did not conform to their own sense of their stewardship responsibilities; and, ii. that the board would lose touch with what was actually going on in the organization.

E.2   Board Development and Management

➢ There was significant desire for *improvement in the succession planning process* and more effective use of nominating committees noted by a number of the boards.
➢ *Valuable lessons* on board orientation, succession planning, membership recruitment and volunteer management may be drawn *from* the *exemplary practices of* Lions and Kiwanis *International Service Clubs*.
➢ Board *orientation programs* and continuing education opportunities *need to be tailored to* the expectations and *learning styles of individual board members*. Orientation needs to be a continuing and repetitive process incorporated into ongoing board functions. It generally gets less priority than essential business in the competition for the limited time on board agendas.
➢ Most of the organizations had or were developing 'conflict of interest' policies. However, *serious unresolved conflict of interest issues* had plagued 40% of the organizations in this sample at some point during their recent history. In some instances this threatened the functionality or even viability of the boards. Although several of the agencies did an excellent job of dealing with conflict of interest issues, others did not. Interviewees reported that volunteers are often reluctant to confront such issues, particularly when they have personal or business relationships through other roles outside the board.
➢ The majority of the boards expressed a desire to do a *better job of building team spirit* and trust. But available time and costs were repeatedly cited as an impediment.
➢ Although there were some notable exceptions, funders do *not* typically provide *adequate resources to support key aspects of governance* such as team building and orientation.

E.3   Board Responsibilities

➢ Increasing attention has been given to the development of mission statements and long-term planning during the past decade. However, most boards *struggle with the development and monitoring of concrete, measurable objectives*.

- Rigorous, let alone formal, *processes for evaluating the performance of the executive director were the exception rather than the rule*. This was the cause of considerable concern to most of the CEO's in the sample. This is an area of responsibility acknowledged by most boards as needing substantial attention.
- A disquieting *30% of the organizations in this sample experienced serious financial difficulties at some point during the past decade due to insufficient board attention to their responsibility to oversee financial activities*. Three experienced direct funder intervention in the management of the organization. In one of these, the funder dissolved the board, appointed a replacement board, and established strict conditions for continued operation by the new board. In a fourth case, continued funding was made subject to substantial changes in the management and governance of the organization. The board of a fifth organization took remedial action in the wake of substantial depletion of reserve funds by the executive director and replaced that individual (although other performance factors also contributed to the dismissal). Major cost overruns occurred in the B.C. Fast Ferries case as well, although the governing board in that instance was encumbered by some very real political constraints.
- A more encouraging finding is that the *current board* of these organizations is *now providing strong financial oversight*. Financial stewardship can be further strengthened in most organizations by regular review and *analysis of long-term financial trends* on key business lines; a practice followed by only one of the organizations in this sample.
- Most boards use consensus or near-consensus decision-making followed by pro-forma votes. More *highly conflicted issues tend to precipitate decision by majority rule*.
- *Boards* tended to be *least familiar with key aspects of human resource stewardship and risk management*. Although board members were often unfamiliar with these, human resource policies and procedures appeared to be well developed and in able executive hands in almost all of the organizations studied. It appears as though some boards may see delegation of this function to management as relieving them of responsibility to monitor indicators of overall performance in this area.
- *Risk management programs* were either *non-existent or in nascent stage* in all but 20 per cent of the organizations. All organizations, including the rural Lions Club, carried insurance. All but one of the organizations had a director's indemnification clause in their bylaw.
- Most boards indicated a *desire to improve their communication with stakeholders* as well as take a more active role in representing the agency to the community.

E.4   Board Effectiveness

Reliable responses for the Governance Self-Assessment Checklist (GSAC) were received from twelve organizations. One of these provided responses for both crisis and post-crisis periods.

Responses suggested Board members saw themselves, on average, as achieving 70% of ideal effectiveness with a range of 24% to 90%. CEO responses averaged a somewhat higher 74% with a range of 40% to 96%. The strongest dimensions of governance were Board Culture at nearly 80% and Board Structure at 75%. CEO's overall rated the effectiveness of their boards somewhat higher than the boards' own ratings. CEO ratings tended to be lower than those of the board where there were problems in the relationship between the two, and higher than or

level with those of the board where there was a strong positive relationship. One might suspect a bit of a halo effect, raising or lowering scores artificially, in either instance.

Interviews with board members, CEO's and representatives of funding authorities generally affirmed the results derived from analysis of the GSAC responses.

F.   CONCLUSION

Financial viability is perhaps chief among the major concerns of organizations in this study. Funding authorities are therefore encouraged to provide stable and predictable funding including support for the governance function and evaluation of program outcomes. Non-profits need to establish clear objectives for results and performance assessment.

There is clearly a need to develop, and broadly disseminate, additional 'user-friendly' governance resources and tools to meet the needs of busy board members and CEO's. The governance models articulated here need to be further elaborated and some guidance provided to boards to assist them in extracting, from these models, those governance practices that will best suit their organizations. Additional case studies of a more representative cross-section of voluntary sector organizations (including organizations with mandates different from those included in this sample) might also be useful to affirm and validate the results of this research.

A substantial majority of the organizations studied here were currently enjoying the benefit of moderately good to excellent governance. For the most part, those organizations that had experienced difficulties in the past decade had resolved them and moved on to better governance practices. Some of these difficulties, we expect, were part of the normal course of organizational growth, development and change. Others we believe might have been averted with the application of better governance practices.

The keys to success are easy to articulate, but the doors to good governance are difficult to unlock during the normal course of human interactions and organizational politics. It takes a strong commitment to open communications and a good deal of hard work. The early warning signs of trouble ahead are usually easy to discern. Boards and funding authorities need to be vigilant for these and take remedial action before, rather than after, the crises erupt. Broad dissemination of the *Keys to Success* and *Signs of a Board in Trouble* identified here should provide some assistance in this task.

APPENDIX A– Case Study Summaries

1.   The Leader Lions Club

This is an 'Operational' or working board that functions, as do most service clubs, entirely on volunteer effort. It has a forty-year history of substantial contributions to this rural Saskatchewan community of a thousand residents. Club members elect (or, perhaps more accurately, conscript) their Executive. Lions International provides excellent support and direction for local clubs through templates for Bylaws, job descriptions, conduct of meetings, succession planning, governance practices, and membership recruitment and orientation.

The tremendous success of this Club's major fundraising project combined with volunteer fatigue may have allowed members to become somewhat complacent about the need for continuous revitalization and new initiatives. It appears to have drifted away somewhat from some of the essential models for maintaining organizational vitality and good organizational governance offered by the Lions International templates.

Nevertheless, it has been and remains a vital force in this small rural community. It is an essential part of the social and business infrastructure of the community and every effort should be made to ensure its continued existence. The responsibility for this belongs to the entire community, not just the current members of the Club.

The presence of a second Lions Club in the community, also requiring its own administrative and governance infrastructure and volunteer support, is somewhat unusual for a community of this size. It too suffers from volunteer fatigue and difficulty in sustaining membership. Perhaps it is time for both to reexamine whether the conditions that created the original decision to maintain separate clubs still prevail. On the other hand, perhaps circumstances have changed sufficiently that joining forces might now be possible and might create a stronger Lions presence in the community.

2.   Kids First (Child and Youth Friendly Ottawa)
(C*ase **study conducted by Elder Marques**)*

Child and Youth Friendly Ottawa (referred to in this report as Kids First) is one of several organizations in North America replicating what is known as the 'Child Friendly' model. It was founded in 1996 by community leaders with an interest in empowering children and youth by giving them a more active role in civic life through volunteer effort, public education about youth issues, advocacy, an advisory relationship with elected officials and key community leaders, and recognition of youth achievements.

The board is comprised equally of adults and youth. The board and committees have adult and youth co-chairs. Making this model work in the face of frequent turnover of youth as they 'age-out' or move on to studies elsewhere has been a significant challenge. The initial objective to engage youth from 'high risk' socio-economic groups has been largely unsuccessful since most such youth are preoccupied with more immediate personal matters. Efforts to engage adult and youth members of the substantial local Francophone community have been largely unsuccessful as well due to the perception that this is primarily an Anglophone organization.

The 2000 budget for Kids First was just over $350,000 derived primarily from federal government youth employment development grants. However, its future is most uncertain since it has not developed a substantial base of financial support from the local community and remains largely dependent on government contributions and foundation grants.

As a young organization, Kids First continues to respond to the pressures of financial survival while struggling to find an effective corporate governance model. The governance challenges that it faces seem typical for an organization that had been governed by an activist, hands-on founding Board of Directors and must now find a new Board/Executive Director balance. Non-profit organizations typically struggle to achieve an optimal, constructive balance in the relationship between the Executive Director and the Board. Achieving this balance is likely to require a high level of Board commitment. It is encouraging that both the Executive Director and the Board seem well aware of the strengths and weaknesses of current practices, and are willing to address problem areas.

Kids First has been able to maintain credibility with its funders and with key constituencies in its community. While it has yet to achieve financial security, it has been able to reach a large number of youth, make a real difference, and demonstrate that it can work well with community partners both in and out of government. The Board has been able to recruit credible community leaders and 'sell' them on the objectives of the organization. It has been less successful in its ability to reach out beyond those that it has touched directly to make an impression on the general public.

The most recent round of recruitment at the Board level has produced a group that has the capacity to set clear targets for the organization and its staff. It remains to be seen whether it will be able to set direction and credibly measure the performance of the Executive Director and the Board against those targets.

On the programming front, successful projects in a wide variety of fields ironically seem to have produced a multiplicity of competing interpretations of Kids First's operational priorities and objectives. The success of unique programming has demonstrated that the organization fills a gap in the community, bringing schools together with other community partners to promote a particular message about the role of young people in community development, and to provide particular opportunities for youth to undertake that role.

Overall, however, the organizational mission does not readily lend itself to establishment of concrete performance measures. Measuring outcomes in this kind of organization is always difficult, but without clear indicators, it will be difficult for Kids First to ensure continued credibility in the community, high staff morale, and volunteer commitment. Those that are involved *know* that Kids First is succeeding, but the Board needs to work to translate that confidence into real information about where the organization is strong and where it requires further work.

3.   Volunteer Ottawa
(*Case study conducted by Karen Shiller*)

This 'Volunteer Centre', founded in 1955,recruits, trains and refers volunteers to other community agencies. It uses a 'Traditional' model of governance. The board delegates responsibility for the management of day-to-day operations to the Executive Director although it oversees operations through its committees. Although a Traditional Board is usually primarily involved in governance and policy-making functions, the board of Volunteer Ottawa has been preoccupied over the last decade with operational issues because of rapid changes in social trends, government programs and legislative issues. Although the CEO does not dominate the Board, the board depends highly on the Executive Director who is very influential and trusted due to her expertise, experience and successful track record.

The Volunteer Ottawa board is elected by its members…over 350 non-profit agencies from across the region that use the centre's volunteer referral services and a small number of individuals with an interest in Volunteer Ottawa's work. As the legal "owners" are not the principal source of funding, the board is accountable to both the members and its core and project funders for the overall administration of the agency and its programs and services. The organization has enjoyed relatively stable core funding ($535,000 in 2000), and has operated with a balanced budget over the past seventeen years with the exception of 1998 and 1999 when an existing operating reserve was used to cover one-time technology upgrading and relocation costs.

Very recently the board has redirected its efforts towards planning and policy issues and governance capacity. The January 2000 board-staff visioning retreat was designed to lay the foundation for a long-term strategic plan and the board has subsequently begun a review of committee functions as well as a communications protocol between committee chairs and the Executive Committee. The past president is leading the board**'s** efforts to develop a more comprehensive written governance framework including committee and board member terms of reference, board member self-assessment forms, board code of conduct and statement of core values. Concerted efforts have also been made to build the governance capacity of the board and a certified fundraiser and community leader have recently been elected.

The organization and the board have credibility with funders, its members, the volunteer sector and the public although there is recognition that its public profile needs further development. There is a nurturing environment within the organization, and intra-board, board-staff and board-CEO conflict is minimal. Communication between the board and the Executive Director is excellent.

4.   Windsor Group Therapy Project (WGTP)
(Case study conducted by N. King, G. Lan, S McMahon & J. Singh: Faculty, U of Windsor, Ont.)

The Windsor Group Therapy Project was a non-profit, publicly funded, children's mental health organization, with a volunteer board of directors, providing residential and non-residential group services to vulnerable children in the Windsor and Essex County. It was incorporated in 1956 but was dissolved in early 2000 after funding was withdrawn. It used a Traditional governance model. WGPT had an operating budget of $630,000 during its final year of operation.

WGTP, over its lifetime, provided effective services to approximately 400 children annually and was successful in training future social workers, many of whom were students at Canadian, U.S. and overseas universities doing field placements with the agency. Among indicators of its effectiveness might be included its financial efficiency (with groups costing only $400 per child per year), the welcoming and continuation of the program in public schools, and the prominent positions reached by many of its former placement students and staff members.

A survey questionnaire was used to explore key issues of governance over the life history of the agency (as derived from the literature) such as awareness and fulfilment of board responsibilities; participation and length of membership; relationship with funding sources; source, sufficiency and timeliness of information; planning for the succession of the Executive Director; and, factors that could have led to the closing of this apparently effective and successful agency. Eighteen responses were received from 30 previous board members. Nine previous members also agreed to follow-up interviews.

In their responses, previous members from both the pre-1990 and the post 1990 groups of the Board of Directors of WGTP generally regarded their membership as a positive experience. Overall, members thought that they understood the programs of the agency, considered themselves to be quite knowledgeable and responsible in their discharge of legal and financial duties, and in their adherence to the requirements of the agency's funding sources. However, some members in the post 1990 group were concerned about *low board attendance and frequent turnover, a too heavy reliance upon the executive director for information and direction, and a less than optimal rapport with the funding partners*. There was also some concern that the issue of *succession of the Executive Director,* whose retirement was imminent*, was not given sufficient attention*.

Board members strongly believed that the process of cutbacks, restructuring, and downloading of a number of services on the part of the provincial government was the critical factor in the closing of the agency. With the withdrawal of support from the public board of education for the in-house school at the residence, the cessation of funding for the residence by the Ontario Ministry of Community and Social Services, and the United Way's reassessment of its funding, many members thought that there was little if anything the board could have done to prevent closure of the agency. They also considered that the final board accomplished the process of closure itself in a timely and professional manner.

Within the limits imposed by its small sample size, this study does suggest a number of implications for board governance that are applicable to other non-profit, publicly funded agencies. In order to meet increased demands for accountability and to adapt to changes in the environment, a non-profit board needs to have a *good mixture of skills* from a *cross-section of the community*, the *active participation* of all members, a *coherent committee structure*, *timely access to thorough documentation and information*, greater involvement in *long-range planning and policy development*, and a *proactive approach to* possible *problems* and *future needs and trends. Timely planning for the succession of the Executive Director* is particularly critical in order to assure and demonstrate *continuity and leadership* when the organization is at a critical juncture. Boards must also ensure ongoing and *positive relationships with* their *funding partners*, and with other kindred agencies and services in the area, as well as promote *public awareness* of the service to the community provided by the agency.

5.   Amethyst Women's Addiction Centre (AWAC)
(Case study conducted by Karen Shiller)

This 'Women's Addiction Treatment Service, founded in 1979, provides addiction treatment programs and education for women with alcohol and drug addiction problems. It operated with a 1999 budget of $630,000.

It started its operations with a 'Traditional' Governance Model but evolved over time into a 'Collective'. This is the reverse sequence of the pattern that would be predicted by 'life cycle' models. The organization has managed through crises of leadership, philosophy and financial viability over the past decade. It continues to struggle with reconciling its 'feminist philosophy' and commitment to 'Collective' organizational form with expectations of funders and community and the realities of organizational growth.

The Centre currently uses a mixed or hybrid model of governance. On the one hand, the Centre's board appears to be developing into a Management Board that participates together with staff in performing key management functions such as financial management, program supervision, staff selection and evaluation. It has, however, retained strong elements of a collective model: consensus decision-making; shared values about organizational purpose; group accountability for group decisions; salary parity between staff; rigorous group screening of new board members; and, strongly inclusive group dynamics with mutual support for personal concerns. The perception of board members interviewed is that the organization most closely resembles a collective (staff-owned) model.

The legal "owners" of Amethyst are its approximately 100 members drawn from members of the general public who have a particular interest in Amethyst's work. The general membership supports Amethyst through participation in committees, fundraising, financial contributions and increasing community awareness of the organization. However, as the de facto owners are the funders, the board is legally accountable to them for the overall administration of the Centre and its programs and services.

Amethysts' governance style appears to have a positive impact on organizational effectiveness. Its open and supportive board culture and democratic consensus decision-making process involving both board and staff minimize organizational conflict and ensures commitment to board decisions. It has operated with a balanced budget over the past decade and has a continued demand for its services.

6,   Service for Urban Aboriginal Persons (SUAP)
(*Name changed to protect the identity of the organization.)*

This organization, incorporated in the 1960's, provides services to support Aboriginal people living in or immigrating to an Eastern Canadian urban area. It provides counseling, employment and other referral services, recreation and assistance to Aboriginal persons adjusting to urban life. Its budget in 1999 was $840,000.

The board of SUAP is elected by its membership. The executive committee is elected by the board. The board operates with a mixed governance model. They have a traditional committee structure.

They describe themselves in the bylaw as a management and policy board, although they had in the past year begun to lean more in the direction of policy and strategic planning. The Executive Director and the board had developed a good balance of power and responsibility between them. Committees were active and shared the work of the board.

SUAP, at the time of this study, appeared to be a well-governed, well-led and well-managed organization. The governance style of the board appeared effective and appropriate for this organization in its current state of development. They had made remarkable progress in the past two years, since a shutdown of services in 1997. They had created a vision and a strategic plan for the future and an operational plan flowing from this. They had totally reworked their polices and procedures, removing the contradictions and establishing clarity.

They had evolved into a strong board with a strong president and an appropriate committee structure. They had invested appropriately in board orientation and training, including team building for the entire organization. They had a strong Executive Director, with strong administrative systems, financial management, internal controls and accountability. They had rebuilt community relationships and trust and won back a myriad of funders and supporters, stabilizing their financial situation. They had a strong staff team and had nurtured hundreds of volunteers who contributed some 22,000 hours per year to the organization.

They had expanded programs and services, responded to community needs, and sought out new and creative uses for their facility. Greater cooperation was evident between the Non-Aboriginal and Aboriginal communities, as well as more cooperation within the Aboriginal community. In short, they had not only rescued the organization from a very difficult situation, but also laid the foundation for strong future growth and further improvement in performance providing this type of board and management leadership was sustainable into the future. They were approaching a critical time with elections scheduled in 2000. They had addressed many of the key recommendations in the literature for the establishment of a strong non-profit organization.

Note: This organization had a fatal flaw in its bylaw that allowed a near complete turnover in board membership annually. Such a turnover occurred shortly after this review was completed, the Executive Director was dismissed and the agency was plunged into much the same factionalism and turmoil from which it had emerged just two years earlier.

7.   Native Friendship Centre of Montreal (NFCM)

This organization provides services to support Aboriginal people living in or immigrating to the greater Montreal urban area. It provides counseling, employment and other referral services, recreation and assistance to Aboriginal persons adjusting to urban life. Its budget in 1999 was $1.1 million.

It has achieved substantial real (after inflation) growth over the past decade. Despite this, its heavy dependence on government funding sources requires it to spend an inordinate amount of its resources on 'chasing funding'. This has a heavy influence on its choice of program offerings.

It has very well developed policies and structures and sophisticated financial and administrative procedures. It has attempted, with mixed success, some innovative entrepreneurial ventures but

may be perceived as somewhat traditional in its approach to executing its mandate. Nevertheless, the board and staff seem committed to breaking out of this traditional mold. Achievement of this will require a strong commitment of board member time and energy. The quality of existing programs seems quite good.

There appears, given the strong influence of a long-serving CEO, to be a fair power balance between the CEO and a new board determined to provide assertive policy direction to the organization and conduct its affairs in a business-like manner. It operates with a mixed governance model (Management, Traditional and some elements of Policy Governance). It is strongly connected to its membership constituency   that controls nominations to the board.

Note: Only months after this case study was completed the Executive Director left the organization as a result of conflict with this more assertive Board.

8.   The Canadian Institute for Child Health (CICH)

The CICH, established in 1977, is a national non-profit institute conducting research and education as well as developing and promoting public health policies and programs intended to improve the health and well being of Canadian children as a major indicator of the health of the nation. Much of the work of the Institute is done through collaborative initiatives, network building and acting as a catalyst for focusing attention on emerging issues. It had a 1999 operating budget of $1.3 million derived primarily from contracts with the federal government, corporate sponsorships and publication sales.

This organizational form offers tremendous benefit to the Canadian public because its arms-length relationship with government provides a degree of independence in its research, policy development and advocacy that could not otherwise be achieved. It allows professionals and prominent citizens to educate and advocate credibly without 'self-interest' on behalf of Canada's Children.

During the late 1980's the Institute experienced rapid turnover in staff leadership and a serious financial crisis precipitated by the depletion of a substantial financial reserve fund. This was further exacerbated by the withdrawal of core funding support from the federal government at the end of 1993.

Staff leadership stabilized during the remainder of the last decade. The strong board leadership from a self-regenerating board dedicated to policy development and fundraising as well as an increased focus on governance have revitalized the organization and facilitated a pretty phenomenal 275% growth in revenues. Nevertheless, the need for financial stability and predictability remain a vital concern for this organization as well as other national organizations heavily dependent on project revenues.

One of the outstanding characteristics of this organization has been its capacity to maintain tremendous board member dedication and enthusiasm for the mission of the Institute. This dedication is reminiscent of an early life cycle stage, formative or missionary board characteristic of the collective way CICH functioned in its early years. This dedication of board members has clearly been a key to its tremendous success.

9.   The Canadian Council on Social Development (CCSD)

The CCSD, established in 1920, is a national membership-based organization dedicated to research, education and advocacy on social policy issues. Its growing membership base is comprised of a broad cross-section of Canadian citizens and organizations. Its history of effective social policy development, advocacy and high quality research has given it a great deal of credibility resulting in privileged access to Statistics Canada data.

It operated, as recently as 1990, with a largely self-regenerating board of 39 members heavily focused on the policy development and advocacy functions characteristic of predecessor boards. The board composition was reduced to seventeen members in the early 1990's in response to a growing financial crisis. It has, during the past five years, embraced the Policy Governance model more fully than all but one of the other organizations in the case study sample.

It has a highly skilled complement of research staff, strong staff leadership and a strong, committed board that is a 'good barometer' for representing the social concerns of the membership across the country. The board asks the tough questions necessary to make the best possible use of the creative tension between the board and CEO. Current board members are well aware of their role as trustees of the organization including their fiduciary responsibilities.

The organization experienced a real crisis in funding during the period from 1991 to 1995 that almost forced it into bankruptcy (forestalled only by substantial equity in a headquarters building). It had become somewhat complacent in its reliance on a substantial reserve fund and federal government contributions to sustain its core operations. The board at the time had not taken sufficient notice of the depletion of the reserve fund and accumulation of substantial debt in the late 1980's. Assertive board intervention and leadership from a new CEO enabled the organization to begin a process of revitalization and redirection. It operated in 1999 with a budget of $1.8 million, substantially reduced from the $3.5 million budget it had enjoyed in the late 1980's.

While the mission for the organization has remained relatively stable for the past decade, the business plan that supports it has been fundamentally redesigned. The strength of its investment fund provides flexibility that was not available during the early 1990's funding crisis. The CCSD, now with its third new CEO and second three-year Business Plan in a decade, appears ready and well able to meet current challenges and seize future opportunities as they evolve.

10.   The Canadian AIDS Society (CAS)

This is a national Society of member organizations committed to education and advocacy on behalf of persons living with HIV/AIDS. Its activities include advocacy for public policy and action in support of disease prevention, health promotion, human rights, research, care and treatment. It uses an interesting, if not unique, blend of the 'Policy Governance', 'Operational' and 'Constituent Representational' models in its Board Governance. It has, for so young and organization, very well developed governance policies and position descriptions for the board, its committees and the Executive Director.

The CAS is a relatively new national organization (incorporated in 1987). It has had the good fortune of receiving sustaining funding for its core operations. Its 1999 operating budget was $2.1 million. Financial management for the past four years has been exemplary. Private and corporate donations have increased by 137% during the past five years thereby reducing the CAS's dependence on sustaining and project funding even though these sources remain critical to its current viability.

It has good credibility with members, funders and the public. Both staff and board members are reported to have a high level of commitment and competence. The CAS has strong member and consumer involvement in its planning processes but remains challenged, as do other non-profit organizations, to more specifically define measurable performance objectives and outcomes.

The major strengths of the organization include accountability to a grassroots membership, regional representation, strong consumer involvement and community activism committed to the CAS mission. A good working relationship with Health Canada and core funding lend strength and stability to the organization. It also has an uncommon sense of community and camaraderie derived from common experience and commitment to battling a life-threatening disease.

11.   The Osteoporosis Society of Canada

This is a relatively young national organization functioning in an area of population health that is rapidly growing in importance. It has made remarkable gains in size, formalization of roles and governance processes as well as credibility during the past five years. It faces a significant challenge over the next few years in implementing a rather unique organizational structure across the country that some may consider visionary and others consider a bit too complex. A second major challenge that it will need to confront is the potential for conflict of interest on the part of board members who conduct research in this area and seek endorsement of that research from the Society.

The self-regenerating board functions with a 'Traditional' governance model and a balanced partnership with the CEO. The organization has a strong senior management team and quite cohesive board. Its formalization of governance policies and commitment to organizational self-examination and strategic planning are commendable. In this regard it compares favorably to many other organizations with a longer history. It had a 1999 operating budget of $2.3 million.

It was apparent throughout this review that this organization (board, staff and chapters) had encountered many of the issues that arise when a small grassroots organization experiences rapid growth. It has also successfully resolved most of these issues. Although there is, as always, room for continued improvement in governance and management processes, the board and staff deserve congratulations and high marks for achievements over the past few years.

12.   Regina Community Health Association

The Regina Community Association (Clinic) has a unique and rich history in evolution of governance practices. It was organized in the 1962 crucible of the Medicare crisis in Saskatchewan. It was formed as a member-owned co-operative to provide medical and health care services to its

members. Start-up funding was provided by member loans and donations but its operational financing was dependent upon the good will of physicians, sympathetic to the organizational aims and philosophy, who were prepared to share their fee-for-service earnings to employ ancillary health care staff in support of a service committed to health promotion and prevention of illness.

It survived a number of organizational crises over its thirty-eight year history including a radicalization of its board in 1972, a split with its physicians' group in 1974 and considerable turnover in leadership in the mid-1990's. Throughout this history it has struggled to achieve a responsible balance between the authority of the board and its dependence upon its physicians for its core operational base.

During the past decade there has been some shift in power away from membership control to vest more authority in the Board and its administrative staff. The Board currently operates with a 'Traditional Governance Model' but is attempting to adapt this model to incorporate the best elements of the 'Policy Governance' approach. It is, at the same time, attempting to reinvigorate its commitment to co-operative values and practical elements of membership control.

It had a 1999 operating budget of $2.4 million.

13.   A Child Welfare Agency (CWA)

This is a composite study of an organization focused on one agency but drawing from the experiences of three others with a similar mandate. It provided child welfare services with a 1999 budget of $3.5 million. It had a history of strained labour/management relations. The labour relations problems grew in intensity from the late 1980's to the mid 1990's culminating in a prolonged strike by unionized staff. The Executive Director was under repeated attacks by union leadership directed at her management style. These attacks became intensely personal as the strike progressed.

This climate also strained the organization's relations with the provincial funding agency and the Executive Director's relationship with a significant minority of her board of directors. The board became badly divided. The union leadership and some members appointed to the board by the local municipality called publicly for the Executive Director's resignation and complained to the funding Ministry about the management of the agency.

This precipitated an operational review of the agency commissioned by the Ministry in the aftermath of the strike. The review was focused on the financial and overall management of the agency with particular attention to the board, senior management and community relations. Its conclusions recognized some of the leadership strengths of the Executive Director but were also very critical of her management style and relationship with the union.

There were serious conflict of interest issues in the organization that were not addressed during the crisis period. Staff members were eligible to vote personally and exercise proxies for elected positions on the board. Eligibility conditions for board candidacy or appointed members did not exclude persons with relatives on staff. One municipal member attempted to influence hiring of a relative and another was reported to receive substantial financial support from local labour groups in her municipal candidacy.

These unchallenged conflicts of interest contributed to a heavily conflicted organizational culture without the transparency in decision-making called for in recent public reports such as that of the 'Panel on Governance and Accountability in the Voluntary Sector' and the 'Dey Commission' report for the Toronto Stock Exchange.

The Executive Director remained under enormous pressure from the board for several months before finally precipitating a confidence motion by the board. This motion, narrowly in support of the Executive Director, allowed her to begin rebuilding her relationship with the union and refocusing the organization's energies on successful program outcomes rather than 'staff satisfaction'. Her view was that 'staff will be happy if they're doing good work' so the focus of the board and management should be on helping them to do good work rather than 'making them happy'.

Changes in the board composition (including the chair) and in union leadership facilitated a significant positive shift in the organizational culture and significant progress on organizational aims to focus on quality services. Within a couple of years the Executive Director was able to secure a similar position with a larger agency and leave behind a much healthier organization.

14.   Children and Family Services For York Region (York CAS)
(Case study conducted by Anthony McNamee)

The York Children's Aid Society is an agency mandated to provide mandatory child protection services, placement resources and family services in York Region, Ontario. A significant defining moment in the organization's history occurred in April 1991 with the resignation of a majority of the agency's Board of Directors. This was precipitated by conflicts with the Ministry over funding that did not keep pace with the growth in service demand and population of the region.

Following the Board walkout, the Ministry of Community and Social Services invoked its power to manage the agency and appointed a newly incorporated body, the Children and Family Services for York Region, to operate the agency on the Ministry's behalf.

A new Board was put in place with an agenda to sort out the existing problems facing the agency. The Order-In-Council that created the new agency was worded in such a way that the new Board of Directors interpreted their role as being the management of the agency as well as provision of policy direction. Consequently, there were blurred boundaries between board responsibilities and operational management of the Society.

An additional significant event in the history of the agency occurred in 1997 with a Ministry review that revealed a waitlist for investigation of protection cases. This was considered gross noncompliance with standards. An organizational review was conducted resulting in Ministerial terms and conditions of operation being placed on the organization. It continued to operate under these terms with a new Executive Director and a Board attempting to make the transition from a 'Management' to a 'Policy Governance' model.

The board, operating with a budget of $8 million in 1999 and a new CEO appointed in the latter part of that year, had begun to make significant improvements in its governance practices and relationship with the new CEO.

15.   An Association for Community Living
(Name changed to protect the identity of the organization.)

This was a board, in the time leading up to a crisis in finances and community confidence, that had paid inadequate attention to virtually every aspect of its governance responsibilities: Board Structure, Board Responsibilities, Board Processes and Organizational Culture. This resulted in governance ineffectiveness propelling the organization into crisis and creating a spin-off effect into the community. Earlier funder intervention might have helped to avert this crisis.

The organization began in the late 1960's as an informal parent support group strongly advocating improved educational and support services for their developmentally disabled children. It's financial and staff resources began to grow quickly in the late 1970's and early 1980's but the 'parent' board had real difficulty in giving up the operational and management roles that had been necessary to start the organization. This made the transition to a more traditional governance model very difficult. This combined with strong union influence over the board to result in a succession of seven Executive Directors in ten years. The Board Chair resigned and filled the CEO position twice as a replacement CEO was recruited and then returned to the Board. The effect of this was generally to the advantage of the organization but did eventually result in some differences between the Chair and the new CEO that would have been avoided if the individual had not returned to the board.

Fortunately, boards from the mid-eighties forward began to take corrective action that, despite continuing financial constraints and repeated CEO turnover, has significantly improved governance effectiveness and credibility of both the organization and the board.

This Western Canadian organization operated with a 1999 budget of $10 million.

16.   Child and Family Services – Alberta Region 13 (CFSA Region 13)

The Child and Family Services Authority – Region 13 is one of eighteen established in the late 1990's to deliver a broad range of child protection and other child and family support services on behalf of the Alberta Minister of Children's Services. The CFSA is incorporated as a 'crown agency'. As such, it must operate within understandably greater constraints than non-profit organizations that are more independent of their funders. The Minister exercises substantive control over the Authorities through legislation, reporting requirements, operating parameters, funding, and appointment of Board members/Chairs.

The CFSA – Region 13 incurred an operating deficit of $944,000 in its first full year of operations in 1999-2000. Operating expenditures of $13,707,000 and 'offset' of the first year's deficit are projected within the fiscal year 2000-01 allocations. Certain financial management, administrative and human resources services are provided to the Authority by the province. Difficulties in the

financial reporting through this arrangement combined with a budgetary allocation that did not fully account for historical funding patterns in the jurisdiction served by this CFSA were largely responsible for the initial deficit.

Staff nominally remain employees of the province but the responsibility for their management and assignment of duties is delegated to the CEO through a Memorandum of Understanding with the Board. The responsibility for collective bargaining and resolution of contract issues remains with the province with input from the CFSA's. The Minister is a full party to the employment contract with the CEO with a right to approve both hiring and contract termination.

The Board has been extensively involved in planning for services within the context of the four 'Pillars' established by the Ministry for this devolution of services to community boards. These require that services be 'C*ommunity-based*'; emphasize '*Early intervention*'; '*Improve services for Aboriginal children and families*' and involvement of Aboriginal communities in planning and delivery; and be '*Integrated*' with collateral services. It has used sound planning processes based on best available information in development of its three-year business plans.

The Authority, within the constraints imposed by its status as a crown agency and the unique administrative support arrangements noted above, exercises its responsibilities as well as many organizations with a much longer history. Its Governance Policies are more sophisticated than has been our observation of many other organizations.

The Board has done exemplary work in development of an organizational structure and governance policies to support a 'Policy Governance' approach to the fulfillment of its responsibilities. This was facilitated by Bylaws and Policy 'templates' provided by the Alberta Ministry of Children's Services. The Board's ambitious expectations for achievement of goals need to be tempered by the reality of what is possible in the current organizational context. Although considerable progress has been made in development of SMART (Specific, Measurable, Achievable, Relevant, Time-limited) objectives and performance monitoring, continuing improvement in this area is necessary to assist them in measuring and communicating their accomplishments to key stakeholders.

The Board generally appears to work quite well. It has an excellent protocol for orientation of new Board members and pays attention to development and nurturance of its members. Conflict of interest issues appear to be addressed conscientiously. There seems to be a fairly good sense of collegiality, unanimity and interpersonal ease around the board table. Tremendous dedication and commitment are obvious. And, despite some disquiet, Board members report that they usually make good decisions in the overall best interests of the CFSA and its stakeholders.

Areas that require varying degrees of improvement or fine-tuning are: the process for appointment of Board members; even distribution of power within the Board; effective use of meeting time; incorporation of Native cultural values into Board dynamics; management of the consensus decision-making model to ensure real consensus; clear delineation of the areas in which the Board has effective authority *(responsibility for this rests with the Ministry)*; and, maintaining the Board's focus on policy and planning without drifting into operational issues.

The Board has been reasonably effective in exercising its governance responsibilities within the very brief history of its existence. Efforts to improve shortcomings identified in this report should make this an exemplary board.

17.   Kinark Child and Family Services (Kinark)
(Case study conducted by Ann Atkey)

Kinark Child and Family Services is a fully accredited, not-for-profit children's mental health center that provides a range of mental health services for children ages 0 to 18 years and their families. It operates with a volunteer board that represents multiple stakeholders including people from various regional communities and service consumers. Its 1999 operating budget was $17.4 million.

Kinark's governance has been highly successful over the last ten years. It has managed to keep the client's needs central and adapt its mission and programs to the changing social and funding environment. It has transformed itself from an agency in danger of being shut down by the Ministry due to lack of productivity, to a large, powerful and effective organization guided by objectives, benchmarks and evaluation of results. Kinark actively seeks new revenue through contracts and fund raising in order to compensate for cuts to its base funding in the mid-1990's.

The strong working partnership between the board and CEO has been of tremendous benefit to the organization, providing strong, steady leadership in implementing massive organizational change. This has taken a toll in the form of organizational fatigue. The board and CEO required the staff to make huge changes in how they regard and conduct their roles. This more business-like approach involving greater accountability for results did not resonate comfortably with a staff steeped in a human services values set. The board and a new Executive Director have been developing a strategy to deal with the 'change overload' felt by front line workers.

The Board is comprised of high profile, credible members who have adopted an approach to governance that approximates an emerging 'Corporate' governance model combined with elements of both 'Traditional' and 'Policy Governance' models.

18.   B.C. Ferries Corporation

The Cabinet of British Columbia's provincial government, in June 1994, announced approval of a 'fast ferries' project intended to improve the efficiency of the province's ferry service and revitalize its shipbuilding industry. The BC Ferries Corporation (a Crown Corporation responsible for implementing public policy) was to be responsible for development and management of the project. It would create a subsidiary corporation to design, construct and deliver three fast ferries.

Although the BC Ferries Corporation was legally responsible for this project (along with its general responsibility for providing a ferry service between the mainland, Vancouver Island, Gulf Islands and proximate U.S. locations), its authority in this particular project was seriously eroded by the interventions and actions of the Minister, the Minister's preferred candidate for the CEO position, the Crown Corporations Secretariat and the Cabinet override of the corporation's decision-making authority.

The project was plagued by a lack of role clarity between the various key players, "insufficient information and analysis to demonstrate that the ferries would meet either BC Ferries' needs or the government's public policy goals in a cost-effective manner", failure to follow sound practices for managing the risks inherent to large capital projects, design flaws, poor reporting on costs and construction progress, serious conflicts of interest between the parent and subsidiary corporations (including a CEO who served both), subordination of the due diligence of board members to political agendas and default in performance monitoring by the boards, central agencies and Cabinet.

Project costs more than double the original estimates, design flaws and project delays cast into serious doubt whether the initial policy objectives would or could be met. Heavy criticism from the public, media and opposition parties was an inevitable consequence. Loss of credibility for the project, the BC Ferries Corporation and the government itself ensued.

This case study identified the pitfalls and pratfalls of pursuing a public policy agenda without due regard for sound practices in governance, project design, management and risk management. It also highlights some of the dangers inherent in the operation of appointed boards and particularly reinforces the call for clarity of roles and responsibilities in and clear lines of accountability for such boards. In this particular case it will likely be the government of the day that is ultimately held to account by the voting 'shareholders' in the province.

19.   Saskatchewan Health Districts

Saskatchewan, in 1992, began to reform and renew its health system through what was promoted as a 'wellness' approach. It was the first province in Canada to consolidate a full range of acute, long-term, home care and community health services under local health authorities. It was also the first to provide for publicly elected representation on such boards. Another stated objective was to provide more local control of decision-making about health care needs and services.

Although the initiative to restructure health services was promoted as a 'wellness' approach, it was clearly, in the minds of many, an attempt to constrain costs and 'rationalize' services. Some have described this as 'rationing' services through waiting lists and service bottlenecks. A 1997 survey of board members and district managers revealed "approximately half believed that offloading tough financial decisions was the main rationale behind the shift of authority from government to districts". *(HEALNet,p.i)*[20]

Approximately two-thirds of district health board members are elected by residents of wards (constituencies) within the districts. The Minister of Health appoints the remainder. This creates a structure of dual accountability that is more difficult to manage by boards, district managers and provincial government officials.

"Only 8% of board members (surveyed in 1997) thought that the views of elected members carry more weight within the board itself. However, almost half felt that appointed members have more

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[20] "Regionalization at Age Five". Kouri, D. et al. *'HealNet' Saskatoon December 1997.*

legitimacy and credibility in the community, increasing to 58% among district managers and 64% of Sask. Health managers. In general, Sask. Health managers perceive a greater difference between appointed and elected members, with more than one-third disagreeing that the distinction between the two becomes unimportant over time." *(HEALNet,p.11)*

The fact that there are two different methods for selection of board members creates an immediate distinction between them. They do not begin their terms of office on common ground. Appointees tend to be individuals more in favour with the government of the day. Elected board members, particularly those in rural areas where there is less support for the current government, tend to be less supportive of the policies of the government of the day. This creates an immediate climate of suspicion and distrust between the two groups. This may dissipate somewhat as the two groups work together but elected members are significantly more skeptical of the government's promotion of the health reforms as based on improvement of population wellness rather than fiscal constraint. (*HEALNet,p.11*)

Appointed members are perceived by informants as having more influence with, and being more subject to the influence of, the government that appointed them. Elected members are perceived as having greater latitude to criticize government policies publicly but having less informal influence with the government than appointed members.

Saskatchewan's health care system in the late 1990's, despite these governance paradoxes, rated highly in comparison with other provinces. Nevertheless, by the end of the decade it was clear that many residents of the province were displeased with the accessibility of health care services and rejected the governing New Democratic Party's bid for a third consecutive majority government. The government also recognized that the reforms had been insufficient to deal with a looming health care crisis fuelled by an aging population, advancing technology and disaffected taxpayers. Consequently, a 'Commission on Health Care' was appointed to review and make recommendations for dealing with this imminent crisis.

20. School Boards in Canada

School boards have had a unique role among Canadian public institutions due to their mandate under provincial legislation, constitutional guarantees for school boards and education and, historically, their capacity to levy taxes as a lower tier of government. Although they may not be commonly regarded as 'non-profit' organizations since they are elected rather than voluntary boards, they do operate as non-profit corporations in the public interest.

Their mandate typically requires their direct involvement in aspects of operational issues such as personnel management, school closures, student discipline, and public consultations. The legislative and regulatory parameters established for their operations also include strict conflict of interest provisions. These factors combine with their elected status to create a unique model of 'Constituent Representational' governance blended in many cases with elements of 'Management', 'Traditional' and 'Policy Governance' approaches depending on the size and history of the particular board.

The survey data reported here suggests that trustees give more than twice as much weight to students as their primary constituents than to parents and taxpayers. This may be somewhat

surprising given that they are elected and, as such, are directly accountable to voters for their performance. Many of those interviewed for this study expressed skepticism about the survey responses on that particular item.

One of the primary challenges to trustees, particularly those elected on a ward or constituency basis, must be to balance narrower constituent or special interests with the overall interests of their school districts. Trustees interviewed for this study reported a strong sense of accountability to the local (taxpaying) electorate. However, there is evidence (*high acclamation rate, low voter turnout for elections and public meetings*) that general public (*as opposed to parental*) interest may be diminishing.

School boards have experienced a 'sea change' over the past decade as their numbers have been reduced through mergers, their authority to levy and collect local taxes has been usurped by governments in most provincial jurisdictions and they have faced constraints similar to other governing bodies dependent on funding from a '*tax-fatigued*' public. The erosion of local taxing authority has reduced board latitude in discretionary spending on programs. Local board involvement and authority in collective bargaining has been eliminated or reduced in most jurisdictions. This has raised questions about the continued relevance of school boards.

The confluence of these factors in the last decade has stimulated boards to reexamine their roles. There has been, since the mid-nineties, a substantial increase in attention to broader governance responsibilities; greater clarification of the respective roles of trustees and administrators, better board orientation, improved processes for evaluation of staff, student and program performance and a more strategic approach to planning. Many trustees have sought new ways of connecting to their constituents. One trustee circulates board agendas to the Chairperson of the twelve local 'School Councils' in her constituency before every meeting and solicits their views on agenda items.

Resource disparities and socio-economic differences between and within school boards make comparison of results on performance measures very difficult. The resource disparities may be reduced in those provinces that redistribute property taxes. However, the demand for enriched programming in communities that previously enjoyed such services has not diminished in 'lock-step' with the withdrawal of local taxation rights.

"Almost unanimously, board members responding to the 1991 CSBA survey ('*Introspection*[21]') pointed to the unity their boards demonstrate on most matters as their principal strength. Another significant strength is the 'general good will and sincere desire on behalf of most trustees to do the best for all students'. " *('Introspection', p. 97)* The fact that they are elected by their community, and in that capacity can act as a buffer between the province and local needs, is also perceived as a principal strength. One wonders if a survey conducted today would elicit similar results.

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[21] "Introspection: Canadian School Boards Look at Themselves". Canadian School Boards Association. Ottawa July 1991.

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