

Not-for-Profit Governance: Inspiration and Challenges

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The numbers tell an extraordinary and under-appreciated story: two million people employed, two billion hours contributed on a voluntary basis (the equivalent of one million full-time jobs) and annual spending of about \$120 billion.¹ Without even capturing the social capital created, it is clear that Canada's not-for-profit sector matters.

Over 160,000 organizations – half of which are charities – are in operation. About 85% of the population contributes financially to our charities; almost six million Canadians claim charitable tax credits for making approximately \$9 billion in donations each year.²

These numbers begin to tell us of the enormous responsibility on the shoulders of not-for-profit directors – responsibility for the delivery of their organizations' services and for their employees, along with the usual fiduciary duties, in particular, stewarding revenue from government funding and personal donations (which all taxpayers subsidize). An astonishing 250,000 volunteers are needed each year for board service due to director turnover³ in an environment of considerable financial uncertainty. Governance could not matter more!

A new study of not-for-profit boards in Canada provides a rare and useful look into the governance structures and practices of this important sector in the Canadian economy and society. The results illustrate a complex and dynamic sector, working

diligently to provide social capital. While significant differences exist between the not-for-profit and for-profit sectors, the findings suggest a convergence in perspectives as to what constitutes appropriate governance. The results remind us of that some of the most powerful means of equipping directors for their important work are the most basic: clear mandates, director orientation and ongoing education. While inspiring, the results also remind us of the challenges directors of not-for-profit organizations face in providing oversight, strategic counsel and hands-on work as they serve communities across the country.

The study, to be released in October 2009, was conducted by Innovative Research Group for Canadian Fundraising and Philanthropy and Altruvest Charitable Services.⁴ Almost 700 directors, Executive Director/CEOs and staff of Canadian not-for-profit organizations responded to the online survey. A broad range of sectors was represented, including Arts and Culture, Education, Health Research and Support, Hospital Foundations, Religion and Social



1 <http://thecharitiesfile.ca/en/fastfacts>

2 Ibid.

3 Statistics Canada, *Highlights of the National Survey of Nonprofit and Voluntary Organizations*, Catalogue # 61-533XIE, available at www.statcan.gc.ca.

4 Innovative Research Group, Inc. (2009). *Assessing Not-for-profit boards: Governance structures and practices in Canada*. Report prepared for Canadian Fundraising & Philanthropy and Altruvest Charitable Services. The Report is available from the author, who chairs the board of Altruvest Charitable Services.

Services. The size of participating organizations, measured by fundraising revenue, varied from “micro” (less than \$100,000; at 30%), “small” (less than \$1 million; at 38%), “medium” (less than \$5 million; at 19%), to “large” (more than \$5 million; at 13%).

Here are some highlights of the research findings:

Meeting frequency

- 50% of boards meet once a month or more; 70% meet at least every six weeks.

Director tenure

- 46% of boards set terms for directorship of three years or less; 72% have terms of years or less. Only 15% of boards have no defined term length for directorship, imposing no restriction on tenure.
- Of those boards with set terms for directorship, 96% of boards allow at least one additional term. 34% of boards permit unlimited term renewals while 52% of boards set a maximum of two term renewals.
- Boards with term limits are more likely to report being supported by the organization.

Means to become an effective director

- 27% of respondents reported that directors are able to become effective in their role in less than six months; 35% reported it takes at least nine months.
- 72% of boards provide a board manual to assist directors in learning about their role, though only 43% of respondents said the board manual was comprehensive.
- 66% of boards provide director orientation (the highest being among hospitals at 90%).
- 68% of boards formally document mandates for the board, board chair and committee chairs.
- 25% of boards have an on-going board training program in place (the highest being among hospitals at 45%).

Board-CEO/ED relationship

- 86% of respondents report good two-way communication between the board and CEO/ED; 60% strongly endorse this view.
- 58% of respondents say the board had developed a formal process and set of criteria for evaluating the CEO/ED; 35% strongly endorse this view.

Impact of organizational size (resources) on board structure and effectiveness

- Boards of larger organizations report receiving significantly more organizational support in conducting their board work than do boards of smaller organizations – particularly in the areas of orientation and ongoing training.

Prospects for fundraising in the current environment

- 34% of non-for-profit organizations are expecting a decrease in financial contributions this year across all sources (e.g., individuals, corporations, foundations, government); 37% expect contributions to remain constant; 29% expect to receive an increase in contributions.

Characteristics associated with effective boards

- The more comprehensive the board manual an organization provides for its directors, and the better the quality of its board orientation program, the more supported the board feels executing its mandate. Directors who take longer to become effective report feeling less supported.
- Boards that have put in the time to agree upon the mandate rate themselves as being more successful at delivering against their responsibilities.
- The faster a director is brought “up to speed” upon joining a board, the better performer that director will be over the life of tenured service. This highlights the importance of director orientation and documented board policies and practices.

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