Being Responsible

Third Sector Governance
and
The Obligation of Leadership

Approaches, Issues and Questions for Consideration
A Background Discussion Paper

Canada Office	London Office	United States Office
Aperio Centre for Social Innovation 215 Spadina Avenue, Suite 420 Toronto, Ontario M5T 2C7 E: info@aperio.ca W: www.aperio.ca Tel: 800.479.1782	Aperio Group (Europe) Limited 32-36 Loman Street London, United Kingdom SE1 0EE Tel: 44 (0) 20 7922 7746 E: info@aperio-group.com W: www.aperio-group.com	• Aperio 155 Water Street, Suite 434 Brooklyn, NY 11201 E: info@aperio.us W: www.aperio.us Tel: 800.479.1782

Contents

1 Introduction and Purpose

This paper is intended to provide background material for the ongoing development of governance in third sector organisations. This review is not intended to be all encompassing nor should it be viewed as legal advice. The principles and examples offered are intended to spark debate and discussion within an organisation's board in preparation for the governance development session.

As these principles and examples are reviewed, the reader is encouraged to reflect upon how these principles might be used within the context of governing your organisation and what competencies might be required to support these principles.

2 Executive Summary

Governance is the application of authority, leadership and management of an organisation to ensure its purpose is achieved and proper accounting is given for results.

There are a number of approaches to governance - the Administrative Model, the Policy Model, the Carver Model, and a variety of hybrids including the results-based governance model.

Success in governance is having an appropriate approach to responsibility and accountability; the approach underpinned by creating an organisation where everyone lives its ethos, clients are paramount, creativity and innovation encouraged, strategic priorities are clear, and measurable outcomes exist with the organisation and its various component parts evaluated against these outcomes.

Accountability for measurable outcomes is a much heard term applied to organisations and individuals. Not used as much in its original meaning is the term 'responsibility', a meaning tied to moral and legal issues; leadership (emphasising values, providing guidance and a process supportive of developing solutions); passion; trustworthiness; and being responsible for oneself, taking responsibility.

Complex problems in a diverse society often arise out of the differing stakeholders' cultures; creating competing demands and multiple accountabilities. Trustees/staff leaders have potential conflicts to resolve as they are accountable to funders, clients, employees, volunteers and other stakeholders. Understanding core responsibilities helps to resolve dilemmas.

Trust must exist to exercise responsibility. Leaders achieve trust by making known and living their values; having passion for a cause; discussing and exchanging ideas and solutions, recognising complexities and choices; outlining choices and their underlying rationale; demonstrating consistency; and being responsible.

A non-profit organisation should design its governance, corporate status, structure and processes to achieve maximum accountability through encouraging taking responsibility and providing leadership; ensuring each level of the organisation is delegated responsibilities appropriate to achieving an organisation's mission; and by having an effective performance management system underpinning performance measurement and reporting.

This paper[1] looks at governance and leadership covering a wide range of issues including applying a culture of business and outlining different models of governance, role and responsibilities of a charity board, and leadership theory and practice. The paper provides background material to spark debate and discussion related to governance.

3 Approach to Governance

This section outlines a number of issues and trends as well as approaches to governance within the third sector.

3.1 Models

Governance may be defined as the exercise of authority, direction and control of an organisation in order to enable mission achievement and accounting for results including outcomes, impact and social return on investment[2]. This includes encouraging leadership and the taking of responsibility for achieving the aims of an institution at all levels within the organisation.

3.1.1 Administrative and Policy Models

The two most common approaches to governance are called the Administrative Model, the more traditional approach, and the Policy Model. In the Administration model, the Board makes most substantive decisions based on materials and discussions at board meetings. Committee structures typically parallel that of management and operational functions, i.e. finance, HR, programme, fundraising etc. The main weakness associated with this model is the absence of a clear focus on results. This lack of focus may impair the ability of the board to 'add value' to the organisational purpose and account clearly to key stakeholders[3].

The second model is the Policy model. In this model the board has an oversight role, rather than an active management role, in managing the affairs of the organisation. This model, however, may create too much distance between the board and organisation. There is a third model, the Carver Model, with which the board establishes and monitors corporate policy, and staff execute the policy and oversee operations. The Carver model makes a distinction between 'ends' and 'means'. The Board determines the ends and staff develop the means. A dynamic hybrid approach of these models is what evolves for many boards. In one particular case, as presented in a Canadian research study[4], the board shared with staff operational responsibility for development of public policy positions, public education and policy promotion. In matters of financial, human resource and personnel selection, however, the board respected the ends/means distinction. In other case studies, within the same study, the board was active in collective bargaining and personnel selection.

3.1.2 Results-Based Model

One emerging hybrid is the results-based governance model[5]. This approach is currently adopted by many leading edge non-profit organisations. It addresses many

[1] For other papers and templates in this area contact Aperio at info@aperio-group.com
[2] Gibson, M. Governing for Results, July 10th, 2006
[3] Gill, M. Synergy Associates. Governance Models: What's Right For Your Organisation? 2001
[4] Gill, M. Synergy Associates. Governance Models: What's Right For Your Organisation? 2001
[5] Gibson, M. Governance Models, Board Types or Best Practices? January 2nd, 2007

of the weaknesses of the other approaches through a judicious use of committees structured around board, rather than around management responsibilities. In this model the executive committee carries the responsibility for leading strategic planning implementation and evaluating CEO performance. A governance committee is responsible for regular review of governance policies and practices, as well as board member recruitment, development and evaluation. Committees used for monitoring and auditing the performance of the board, CEO, and organisation typically include an executive committee, a governance committee, a risk management committee and a quality assurance or programme committee. This approach differs from the more traditional models because it uses committees to do the board's work rather than to review management activities. In this model there is also full partnership between the board and the CEO, where neither dominates the relationship. The 'board ends', 'management means' duality is maintained in relation to the management of finances, human resources and programme operations.

3.1.3 Governance and Collaboration

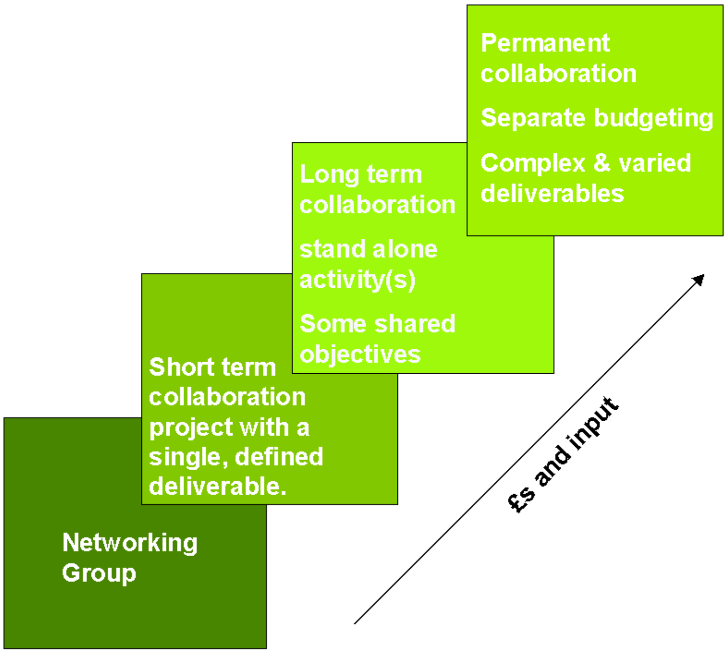
Of special interest is the governance model being used for collaboration – the Constellation model[6]. It is a way 'to bring together multiple groups and sectors to work toward a joint outcome' balancing 'roles, responsibilities, vision, strategy and planning…'. It neatly overlays elements of the continuum of collaboration[7] described by APERIO in its research into collaboration, summarised in the next few paragraphs:

A review of the voluntary and community sector highlights that there are actually a large number of collaborative projects already underway. Although these projects vary extensively in deliverables and structure, generally they can be placed into four top-level groups. These groups are separated by the amount of commitment that the organisations have to make to the project, the level of formality within their partnership structure and the cost of operating it.

The figure below demonstrates that the level of human and financial capital investment will rise commensurately to the formality and scope of the collaborative project.

[6] Constellation Collaboration: A model for multi-organizational partnership a Center for Social Innovation publication written by Tonya Surman

[7] Choices Have Consequences: Collaboration – Strategic Issues, Process and Benefits prepared by APERIO 2006



Listed below are the various models[8] of collaborative working projects currently underway in the voluntary and community sector. They are listed in order, with the first being the most informal example of working collaboratively and the last to be the most structured. These models are:

1. Networking groups
2. Umbrella groups and membership organisations
3. Affinity schemes for discounted purchasing

Group 1

4. Joint research and development projects
5. Joint training groups

Group 2

6. Buying groups
7. Lobbying groups
8. Fundraising groups
9. Sharing building facilities and space
10. Organisational incubators

Group 3

11. Outsourcing services to a corporate.
12. Outsourcing services to a community and voluntary sector organisation.
13. Creating a separate organisation to provide services to shareholding partners and, possibly, also to third parties. (Otherwise known as a Management Services Organisation, MSO, or Shared Services Organisation)

Group 4

[8] For more details and definition, see Sharing Without Merging, a research paper prepared by APERIO

In essence the Constellation model start with a group identifying a need that could be better met by working together, an environment and network within which it operates, and committee with partner representatives overseeing the project. The partners further define the nature of the need, shared assumptions, a vision, a plan, a partner asset map whilst finalising agreements related to governance which covers establishing a secretariat and a leadership model allowing for different partners and self organising short term task teams to play a lead role depending on the project and their interest and competency. This approach creates an approach that reinforces multi tasking and adaptability as circumstances evolve and change. This form of collaborative leadership does not need any form of legal incorporation – in fact this is discouraged.

3.2 Responsibility, Trust and Accountability

One of the keys to success is having an appropriate approach to responsibility and accountability, creating an efficient and effective means to achieving an organisation's mission.

3.2.1 Responsibility

Accountability is a much heard term applied to organisations and individuals. Not used as much in its original meaning is the term 'responsibility', a meaning tied to moral and legal issues; leadership (emphasising values, providing guidance and a process supportive of developing solutions); passion; trustworthiness; and being responsible for oneself and taking responsibility - being able to choose for oneself between right or wrong.

It appears that responsibility is more and more taken to mean accounting; assessing what has taken place and how to report it. Numbers are the key, whether they be quotas, measurable process outcomes, outputs, financial measures or impact. Complexity is out; simplicity predominates.

Responsibility, in the sense of honour and obligation, goes beyond accountability. It is more than the narrow concept of accounting for the measurable outcome. It is still very important to track results and impact, and to understand the accounting; but solely managing to the numbers misses the mark and is short sighted.

Responsibility has to do with integrity, a personal obligation reflecting personal values and standards (based on those underpinning the society or group within which we live and function). It goes beyond motivation based on the fear of getting caught or sanctioned.

In place of trust, accounting or accountant approaches to accountability arise. In place of responsibility comes simplicity where none exists.

3.2.2 Complexity

Complex problems require individuals, groups and organisations to be responsible, to share responsibility.

Complex problems in a diverse society, group or organisation often arise out of the competing values of stakeholders. Complex problems create competing demands and multiple accountabilities. As a trustee or staff leader, one has potential conflicts to resolve related to being accountable to funders, clients, employees, volunteers and other stakeholders. Choices have consequences. Understanding core responsibilities and living one's own responsibilities are key to resolving dilemmas and taking responsibility for actions and outcomes – being accountable in a broader sense. This is being 'responsible'.

Accounting in the accountant's sense is of little help to solving complex problems. It is not just an issue of cost and numbers. It is more than efficiency (although implementation should be tied to efficiency and effectiveness balanced with quality). Choices are related to values, organisational ethos and moral fibre – being responsible, being a leader.

Consider this simple example. A charity operates an after-school programme for children in a low-income neighbourhood. How should it set the price for the service? If it sets a relatively high price, the quality of the programme may be improved and more children can potentially be helped, however, those most in need of the service may no longer be able to afford to attend. If the price is set relatively low, attendance may increase, but quality or long-term sustainability may suffer, and the organisation doesn't do anyone good if the standards fall or it goes out of business. Accounting does not offer any solution to this tricky problem – wisdom and judgement do.

Another common conundrum for charities is the following: two candidates are being considered for a key management role. One is less experienced but will work for less money. Accountability favours the inexpensive candidate, since administrators are an 'overhead' that must be reduced, but is that really the best choice for the organisation?

3.2.3 Trust

In order to move to more emphasis on the traditional concept of responsibility, trust must exist. Decision makers achieve trust by making known their values; having passion for a cause; discussing and exchanging ideas and solutions, recognising complexities and choices; outlining choices and their underlying rationale; demonstrating consistency; and being responsible, taking responsibility - leading.

Stakeholders must also engage in and trust the process – they must influence and debate values and choices and participate in being part of the larger accountability process, a process related to being accountable for consequences and outcomes.

3.2.4 Performance Management – Must Have or Nice to Have?

As organisations attempt to deal with achieving their mission and managing multiple constituencies and complex and sometimes contradictory demands there is a question that all organisations should be asking of themselves – how are we doing?.

Answers such as "pretty well", "could be better", or the more scientific "we're up by a bit" with a few numbers thrown in, never have been adequate and certainly will not be in these tougher times.

The third sector, unlike the private sector, in general has not always had strong passion for performance measurement; for accurate unified data to drive client, donor, and member understanding and cost, output, outcome, and impact measurement.

Currently information is often too fragmented, inaccessible and incomplete to give the board members, senior management, staff, donors and clients a complete view of activities and their effectiveness. .

With competition increasing for scarce resources, such as donations and commissioning, third sector leaders must be prepared for tougher times. An entrepreneurial strategic backdrop should be put in place that allows for a more creative approach along with a business plan that allows for 'battening down the hatches' if needs must. What does that mean in practice though? It means that staff must be encouraged to discover innovative ways to raise funds, deliver services and liaise with stakeholders – all whilst restricting costs and improving outputs and outcomes. This would lead to a performance driven organisation, not one that is primarily cost driven, not a culture of accounting.

In such an environment performance measurement is key to improving individual and organisational impact. Central to delivering this is an effective data management system, for without it all the KPI's in the world will not help. With a desire to maximise use of resources, improve outcomes and generally run a tight ship it is absolutely vital that there is an organisation wide view of all the key indicators – all in one place and provided in a timely fashion. This scenario just won't allow numbers to be produced two months after the event and require the manager to view one set of information in accounts, one in trading software, one in the delivery software and so on. Today's senior manager needs information now that will inform cross organisational decisions – now. This is essential to the success of a proper approach to governing a third sector organisation.

Performance measurement can be extremely motivational at all levels, as staff see the true results of their actions. Again in these tricky times we must ensure that we inspire and inform our key workers and to do that they need to know that they are making a difference – how do we tell them – with performance management backed up by effective information systems.

Just as a footnote, an added benefit of a good performance management system is that it helps to filter through the cacophony of information available in every organisation, contributing to the process of producing an epiphany – the moment when information creates insight and knowledge leads to wisdom. And you can't get much better than that in answering …….. How are we doing?

Measuring outcomes and impact against an organisation's vision, mission, values, strategic priorities and operations plan are key to organisational success[9]. These measures reflect the multi-layered approach to evaluation, accountability and the exercise of responsibilities. De-emphasising 'management by numbers' is

[9] For background on data and information as important elements of performance management see paper written by APERIO entitled: Data is More Than Information - It Underpins Performance Measurement: APERIO Insight's Experience and Learnings Applying Tested Corporate Sector Data Management Approaches to the Third Sector Published in Charity Finance 2008 (available by email: info@aperio-group.com)

recommended – but not abandoning measurement, operational planning or quantifiable objectives.

3.2.5 Summary

In summary, a non-profit organisation should design its structure and processes to achieve maximum accountability through encouraging taking responsibility and providing leadership; ensuring each level of the organisation is delegated responsibilities appropriate to achieving an organisation's aims and objectives. It could be argued that the hybrid model described above goes a long way to achieving this balance whilst ensuring accountability in its broadest sense.

3.3 The Board

To better deal with increased corporate scrutiny and board fiduciary responsibility it is important that the board[10] considers the following when working within whatever governance model that is chosen for the organisation.

i. The board should protect members' rights ensuring equitable treatment for all members, stakeholders and clients/users of the service. It is accountable for both the governance and management of the organisation. This includes determining the vision, mission, values and strategic priorities[11] of the organisation. It must oversee the activities of senior management.
ii. The chief executive (CEO) of the organisation has the ultimate management responsibility for an organisation, reports to the board, appoints other managers and staff. The senior management has a duty to inform the board providing any information that could impact on decision making.
iii. The senior elected volunteer is the chair of the board.
iv. The board is responsible for determining all non-administrative policies of the organisation; the CEO, working within the mandate provided by the board, is responsible for determining all administrative policies.
v. The board defines and approves a Code of Conduct for the directors and a separate one for the CEO. It should reinforce an ethical culture within the organisation at all levels ensuring mechanisms of compliance are put in place and actively applied.
vi. There are three types of committees/task forces:
   a. Policy task forces with a limited time frame established by the board (chaired by a board member) to recommend policy to the board.
   b. Board statutory committees dealing with issues related to the by-laws e.g. member discipline, ethics, board nominations, audit (chaired by a board member). It is important to note that it is good practise for the board to select from amongst themselves a nominating/governance committee responsible for nominating board members and for issues related to compliance and good governance practice.
   c. CEO working committees, established by and reporting to the CEO. These committees focus on operational issues and may have staff and volunteers as members. It is important to note board members participating in the CEO committees are not there as board members but as volunteers, therefore responsible to the CEO.

---

[10] For further information on the responsibilities of the board and its chair contact info@aperio-group.com.
[11] To receive templates on strategic planning contact info@aperio-group.com.

vii. Succession planning and term limits for board membership and leadership positions are essential to the ongoing success of an organisation.
viii. Annual evaluation is essential and it should include evaluation of the board itself, each board committee and each board member.
ix. Four monitoring options are available: (Note: reports should be circulated in advance, not read at the meeting, questions answered re content at the meeting)
    a. CEO report to the board, the report outlining any breeches of the CEO code of conduct as well as activities of CEO working committees as well as an evaluation related to strategic priorities, business objectives, and outcomes and impact
    b. Board task forces and statutory committee reports.
    c. Independent third party reports commissioned by the board re any management (i.e. re CEO adherence to approved policies or with generally accepted management practices) or compliance or policy issue.
    d. Periodic financial reports that highlight divergences from the approved budget.
    e. Policies should be put in place to encourage staff, volunteers and stakeholders to inform management and the board of breaches of the code of conduct, ethical issues and violations of the law and reporting responsibilities without fear of retribution.
x. The board completes an annual written appraisal of the CEO.
xi. The board chair coordinates written appraisals of the volunteer directors.
xii. Training for trustees and staff is a priority, a budgeted item.

4 Culture of Business

One approach to achieving responsibility is to create a ‘culture of business’ within a charity. This sets a tone, a context within which to exercise responsibility and accountability.

4.1 What is Culture?

Culture is the collection of values, norms, beliefs and assumptions that define the framework of how people work in an organisation – its ethos. Culture includes the driving motivation of the people who work in an organisation or in the collaborative relationship and the incentives that the organisation or collaboration has used to encourage specific behaviour.

4.2 Culture of Business

A ‘culture of business’ is not the same as a ‘culture of accounting'. Success in business comes from a focus on customers first. The recipe for success in business is to create value for your customers. A third sector organisation offers the most efficient use of income when it does the same thing.

A “culture of business” is an adaptation and application of business norms and language into a non-profit setting; all the while recognising the difference in ends between a business which attempts to maximise profit and a third sector organisation that exists to help its target client group. It includes the following characteristics.

i. A business culture is client or customer value centric. Judgment always comes down to answering the following: “How does this action meet the long-term needs of our client or our customer?" It is important to recognise that the focus here is long-term.

ii. A business-oriented organisation knows what it is good at, and markets and 'sells'/delivers this to clients or customers who can realise value from a relationship with the organisation. These organisations make choices about whom they will or won't serve, so that they can serve their niche exceptionally well.

iii. A business-oriented organisation creates value for its clients and customers. Value created is shared between the customer and the organisation. These organisations do not undervalue what they provide.

iv. A culture of business does not mean valuing profit over mission. In the case of a charity it is creating a balance between quality and cost effectiveness, efficiency and resource availability – that is being business-like.

v. A culture of business does not mean pushing the products you want to sell or trying to sell customers or funders things they do not need. It means listening to your clients and customers and helping match them with valuable services that help them meet their needs whilst realising an organisation's mission. It means being sales oriented and taking a cross-marketing approach where every interaction with a client or customer is an opportunity to deepen the relationship.

vi. Pricing should be based on value creation and market comparisons; not solely on cost. A third sector organisation is seeking a social return on investment, a potential triple bottom line impact.

vii. A culture of business emphasises taking advantage of market opportunities and is innovative and entrepreneurial, that is, it focuses on:
   a. Creating something new.
   b. Seeing change as the norm and as healthy.
   c. Always searching for, responding to, and exploiting change.
   d. Taking calculated risks.
   e. Constantly shifting resources from lower to higher areas of productivity and yield.

viii. A culture of business provides the discipline for letting go of services that are not achieving the desired outcomes and impact.

ix. A culture of business has clear entrepreneurial values, such as:

<table>
<tr>
<td>
We are client focused

Customer driven
Quality oriented
Responsive to client need,
Passion for customer service

We strive for transparency and accountability

Openness and honesty in all actions and communications
Dependency on logic and evaluation and respect for intuition
Responsible to financial investors/funders
Integrity and honesty
Effective communication

We value effectiveness, achieving impact

Commitment to the efficient and effective use of resources
Application of an entrepreneurial

</td>
<td>
We accept change and support excellence

Continuous improvement
Acceptance that change is part of everyday activities
Innovative
Desire/wanting to succeed and improve
Evaluation and feedback
Success driven/results driven
Want to be the best

We are responsive to the external environment

We exhibit responsible behaviour to

The community within which we function
Customers
Employees
Funders/investors
Suppliers
General public

</td>
</tr>
</table>

approach to the business portfolio activities • Evaluation and performance management reporting	• Excellent follow–up service • We value collaboration and teamwork

4.3 Good Practice Suggestions for the Board

The following are some generic suggestions for all board members and trustees to live by.

i. Board members should constantly seek to establish and maintain confidence in the conduct of the organisation. They should be independent in judgement and have an enquiring mind.
ii. To be effective, board members need to build recognition by executives of their contribution in order to promote openness and trust.
iii. To be effective, board members need to be well-informed about the organisation and the external environment in which it operates, with a strong command of issues relevant to the business.
iv. Board members should insist on a comprehensive, formal and tailored induction. An effective induction need not be restricted to the boardroom, so consideration should be given to visiting sites and meeting senior and middle management.
v. Once in post, an effective board member should seek continually to develop and refresh their knowledge and skills to ensure that their contribution to the board remains informed and relevant.
vi. Best practice dictates that an effective board member will ensure that information is provided sufficiently in advance of meetings to enable thorough consideration of the issues facing the board.
vii. Board members should insist that information is sufficient, accurate, clear and timely.
viii. An element of the role of board members is to understand the views of major investors both directly and through the chairman and the senior independent director.
ix. The effective board member:
    a. Upholds the highest ethical standards of integrity and probity.
    b. Supports executives in their leadership of the business while monitoring their conduct.
    c. Questions intelligently, debates constructively, challenges rigorously and decides dispassionately.
    d. Listens sensitively to the views of others, inside and outside the board.
    e. Gains the trust and respect of other board members.
    f. Promotes the highest standards of corporate governance.

5 Leadership[12] - Imperfection Without Delusion

There have been a multitude of leadership theories and sub-theories over the years. These have ranged from the great man theories to those that focus on participative leaders, transactional or management approaches to leadership, task oriented

[12] Many thanks to Aperio, the Aperio Group (Europe) Limited sister company in North America, for providing background material for this section of the paper. For more information see www.aperio.us or www.aperio.ca.

leaders, and to transformational inspirational leaders. Currently the debate builds on different aspects of each of the above. In a broad sense it can be summarised as follows.

5.1 Leadership vs. Management

Management is doing things right; leadership is doing the right things.
(Peter F. Drucker)

In this debate, the role of the leader is seen on one side as simply ensuring tasks are completed and the organisation runs smoothly. On the other side of the debate, leadership involves relationships with teams and individuals, potentially leading to organisational change[13]. The choice depends on whether the organisation, in the case of the latter, needs to move in new directions.

This view focuses on the organisation as the centre of change. If the centre of change is the individual, then the process of leadership can be ongoing.

5.2 The New Leadership Challenge

Leadership theory is out of step with today's knowledge driven world where power has shifted from the top down force of personality and the quest for dominance to the power of innovation and widely dispersed knowledge.
(Mitch McCrimmon)

Past theories of leadership have taken an individualistic perspective of the leader, whereas this school of thought[14] focuses on collaboration, information sharing, participation in and contribution to key decisions that have to be made, and on front line innovation[15]. Leaders, whilst being strategic, encourage bottom-up creativity and problem solving making use of the skills and competencies of staff within an organisation[16]. Persuasion is seen as a key ingredient. This approach is seen by many as creating competitive advantage.

5.3 Multi-Directional Leadership

Although leadership theories have abandoned the great man idea, there is still a focus on one individual dominating a group. Leadership that is responsive, on the other hand, is used to change how we think. It requires widely dispersed, multi-directional leadership that can shift rapidly from one person to the next. To show leadership in the current environment, it is necessary to be personally creative or quick to recognise opportunities in the creative work of others and to support

[13] Kotter, John, 1996. *Leading Change*. Harvard Business School Press.

[14] For information on similarities and differences on leadership styles of men and women see Eagly, A. H., Johannesen-Schmidt, M. C., and van Engen, M., 2003. 'Transformational, Transactional, and Laissez-Faire Leadership Styles: A Meta-Analysis Comparing Women and Men.' *Psychological Bulletin, v.95*.

[15] McCrimmon, Mitch, 2003. 'What's wrong with leadership?'; www.leadershiplearning.org. Viewed November 25, 2005.

[16] Neilson, Jeffery, 2004. *The Myth of Leadership: Creating Leaderless Organizations.* Published by Davies-Black.

continuous learning[17]. The role of relationships is less important than the ideas and knowledge.

A slightly different form of this is leadership that focuses on spontaneous action which challenges what someone else is saying and advocating a different idea or direction. It is also the entrepreneurial seizing of opportunities, and it is found in organisations that require change and innovation. It is facilitative and utilises information that emerges often at the front lines with employees closest to the market and the need for new products or services. It values transparency and relationships as well as new knowledge[18], seeing leaders as changing and emerging throughout the organisation.

This type of leadership is of particular importance for the social sector: “The key is to get people talking and working together across the boundary lines that traditionally divide and diminish a community --- people from government, corporations, social agencies, ethnic groups, unions, neighborhoods and so on”[19].

5.4 Social Entrepreneurs[20]

Social entrepreneurs[21] are innovative, risk taking entrepreneurs seeking a triple bottom line return. They are energetic, persistent, pragmatic and confident, with an ability to inspire others to join them in their work. They are mission and values driven. Typically they feel responsible to a cause or a mission.

Their leadership style is often focused on their own life[22]; it is an outlook on life and a belief about the leader's role in the world. They accept risk and responsibility; they often do not stay in their comfort zones or maintain the status quo, but focus on continual growth and improvement. It is all about initiative, decision-making and responsibility. They lead by example and seek to inspire and motivate those around them to reach their own potential. They believe in continuous self improvement.

5.5 The Obligation of Leadership

Management is doing things right; leadership is doing the right things (Peter F. Drucker)

Leaders have obligations. Building on earlier parts of this paper which focused on responsibility, it is important to take note of one’s obligations as a third sector trustee or management leader.

This is what leaders should not be.

---

[17] Senge, P. (1998) ‘The Practice of Innovation’, *Leader to Leader* 9. http://pfdf.org/leaderbooks/l2l/summer98/senge.html

[18] Neilson, Jeffery, 2005. 'The values and practice of the new paradigm in management: Peer-Based Organizations'. *Centrepoint for Leaders Newsletter*.

[19] Gardner, John, 1998. ‘Foreward'. *Boundary Crossers: Community Leadership for a Golden Age by Pierce and Johnson.*

[20] For information of social enterprise definition see paper written by APERIO entitled: Social Enterprise Activity In The UK: A Preliminary Overview (2005).

[21] Barendson, Lynn and Gardner, Howard, 2004. 'Is the Social Entreprenuer a new Type of Leader?' *Leader to Leader*, no. 34.

[22] weLEAD Inc., 2003. 'Just what is personal leadership?' *Leading Today On-Line Magazine.*

- My boss told me too.
- It is not my fault - I am just following orders.
- I do not know why I am doing this.
- My boss does not understand me.
- Why won't they do what I ask them to do.
- I can't believe they do not understand this.
- I wish they would show a little bit of initiative.
- I think we need a new policy on that.

A leader is obliged to:
- Understand and challenge the organisation's strategy; and once finalised, own it, support it, and implement it.
- Encourage ownership in others.
- Manage within ethos of the organisation.
- Engage with staff that encourages and permits them to own the strategy and their development within it.
- Challenge and encourage individual growth and opportunities within or beyond one's organisation.
- Stay engaged through difficult situations, not avoiding them or passing them to others.

Leaders, as part of their obligation of leadership, take responsibility for:
- Tasks:
  - Setting, understanding, communicating strategy, and objectives.
  - Conveying and clarifying policies
  - Appraisals, compensation discussion, and competencies analysis
  - Coaching
  - Team meetings, sharing and delegating
- Relationships:
  - Trust, staying engaged, and understanding
  - Collaboration on individual learning
  - Helping staff understand/own strategy and issues
  - Confidentiality where appropriate

In addition, leaders:
- Serve with integrity and respect.
- Are inspiring, entrepreneurial in nature; able to influence and bring change.
- Are strategic, innovating through analysis, intuition and ideas.
- Are engaged, mobilising people, organisations and partners
- Are managers, ensuring achievement of organisational objectives

..the role of the leader is seen on one side as simply ensuring tasks are completed and the organisation runs smoothly. On the other side of the debate, leadership involves relationships with teams and individuals, potentially leading to organisational change. The choice depends on whether the organisation, in the case of the latter, needs to move in new directions.

Your choice depends on your circumstances.

What is needed in your organisation – leadership or management?

What role does inspiration play?

5.6 Application to the Third Sector

The identification of what is required of leaders and the manner in which this integrates in the organisation is an important voyage of discovery...and one for which it is vital that key players take ownership – simply printing off a pre-defined set of standards wouldn't achieve the same results.
(Deborah Meehan)

There are many approaches to leadership, the application of which is dependent on the organisational needs of the day. Leaders have many traits, competencies and skills that reflect their positions and personalities and that allow them to play one of the leadership roles described in this paper.

Of special interest is the role a leader plays as story tellers[23]. Organisations transform through storytelling, and leaders are one of the tellers. They do not completely control the unfolding storyline; a construction of networks of tellers in and beyond the organisation create the whole of the story. Storytelling crafts meaning into specific cultural events in an organisation, rituals and artefacts. The historical context of local stories is influenced by the wider ones within the overall political, economic, social, and ecological context.

There is a struggle between leaders and others to direct the story of the organisation, to make one story stick among competing ones. The role of the leader is to tell the most compelling story that motivates the organisation to change and grow.

Many of the approaches to leadership presented here build on previous styles, rejecting some aspects and incorporating others. When looking at these theories, third sector organisations should ask:

i. What are the common themes that emerge again and again? What factors have been discarded?
ii. What historical environmental context created these views of leadership?
iii. How would these styles translate into practice? What type of leader is needed by your organisation at this time? How would the practice translate into your own organisation? What type of leader is needed in your organisation re strategic, people and process management?
iv. What is the obligation of third sector leadership? How does it apply to strategic activities of leaders and to being responsible, to encouraging ownership in others, to reinforce growth in individuals and innovation by them, to performance management and measurement, and so on?
v. How do they align or contradict with your own beliefs about leadership?

[23] Boje, David, 1990. *The Theatrics of Leadership Theory*.

6 Summary

6.1 Key to Success of Third Sector Organisations

Good governance is key to the success of a third sector organisation. It is composed of many elements, some of which have been explored in this paper. These include having to make a choice about the model most appropriate to the organisation's current circumstance; being responsible and accountable, and establishing good practice.

These were questions asked related to leadership. Adding to these questions a third sector organisation's leadership and key stakeholders should ask whether they are complying with standards of good governance, a sample of which is contained Good Governance: A Code for the Voluntary and Community Sector[24]. For example, are you following the key principle as articulated in Good Governance? To quote from Good Governance, these include:

> Underlying each of these is the additional principle of equality – that of ensuring equity, diversity and equality of treatment for all sections of the community. We see this as fundamental to the work of all voluntary and community sector organisations; rather than creating a separate 'Equality' section, the principle has been used to inform all sections of the Code.
>
> i. **Board leadership** Every organisation should be led and controlled by an effective Board of trustees which collectively ensures delivery of its objects, sets its strategic direction and upholds its values.
> ii. **The Board in control** The trustees as a Board should collectively be responsible and accountable for ensuring and monitoring that the organisation is performing well, is solvent, and complies with all its obligations.
> iii. **The high performance Board** The Board should have clear responsibilities and functions, and should compose and organise itself to discharge them effectively.
> iv. **Board review and renewal** The Board should periodically review its own and the organisation's effectiveness, and take any necessary steps to ensure that both continue to work well.
> v. **Board delegation** The Board should set out the functions of sub-committees, officers, the chief executive, other staff and agents in clear delegated authorities, and should monitor their performance.
> vi. **Board and trustee integrity** The Board and individual trustees should act according to high ethical standards, and ensure that conflicts of interest are properly dealt with.
> vii. **The open Board** The Board should be open, responsive and accountable to its users, beneficiaries, members, partners and others with an interest in its work."

Supporting principles and role definitions contained in Good Governance should be used as a guideline and check list, the application of which should take into consideration the issues addressed in this paper related to the different models of governance, responsibility and confidentiality, culture of business, and the type of leader needed for the organisation at this time of its development.

---

[24] Publication prepared by ACEVO, Charity Trustee Network, ICSA, NCVO, on behalf of the Hub of Expertise in Governance 2005.

Please see Appendix 1 for more information on emerging principles of governance.

6.2 International Implications

There are international implications related to governance, many of which were explored at the acevo International Conference: Network Power in 2007. These ranged from issues related to applying standards of good governance practice across diverse regulatory systems and cultures, as well as the different histories of applying the third sector models to social change; to those such as transparency, accountability, and public and third sector relationships especially related to new roles for third sector organisations. This leads to more questions for third sector approaches to governance.

6.3 Anything is Possible

Lastly, anything is possible, so remember:

> **We are a world of wall builders, practitioners, and dividers of space. We long for the security of safe places. We construct these barriers in a vain attempt to control the elements, to keep the rain from dampening the fire, the wind from covering ours lives with the inevitable dust. Many of the walls we build are essential to our survival. Many, however, are not. By fortifying the unnecessary walls, we in business (for profit and not-for-profit)..huddle in the systems we have closed. The consequences: thinking decays and novelty vanishes.**
> **(Open Boundaries- Howard Sherman and Ron Schultz 1998)**

There is only one box, the one you put yourself in.

7 Appendix 1: Emerging Trends and Principles of Governance

Recent developments and scandals within the for-profit sector have encouraged closer scrutiny of the governance within that sector. Numerous jurisdictions have responded with new legislation (Surbanes-Oxley Act), particularly in the United States. Recent Canadian developments have also increased the pressure within the Canadian context to legislate increased accountability.

Governance trends within the not-for-profit sector tend to be informed by the developments within the corporate sector. As a result, many look to these recent legislative changes in an effort to predict the future trends that will affect the governance practice within the not-for-profit sector.

7.1 Ten Emerging Principles of Governance of Nonprofit Corporations (based upon the Surbanes-Oxley Act)

The following is an excerpt from an article written by Thomas Silk (Thomas Silk practices law with Silk, Adler & Colvin, a San Francisco firm specialising in the law of non-profit organisations. He is the editor of *Philanthropy and Law in Asia* (1999), and he has contributed chapters to *Serving Many Masters: The Challenges of Corporate Philanthropy* (2003) and *The Jossey-Bass Handbook of Nonprofit Leadership and Management* (2004). Copyright 2004 by Thomas Silk). He proposes a set of not-for-profit principles that he believes will emerge from the environment of increased corporate scrutiny.

1. The board of directors of a non-profit corporation must engage in active, independent, and informed oversight of the activities of the corporation, particularly those of senior management.
2. Directors with information and analysis relevant to the board's decision-making and oversight responsibilities are obligated to disclose that information and analysis to the board and not sit passively. Senior management should recognise and fulfil an obligation to disclose – to a supervising officer, to a committee of the board, or to the board of directors – information and analysis relevant to such person's decision-making and oversight responsibilities.
3. Every non-profit corporation should have a nominating/governance committee composed entirely of directors who are independent in the sense that they are not part of the management team and they are not compensated by the corporation for services rendered to it, although they may receive reasonable fees as a director. The committee is responsible for nominating qualified candidates to stand for election to the board, monitoring all matters involving corporate governance, overseeing compliance with ethical standards, and making recommendations to the full board for action in governance matters.
4. Every non-profit corporation with substantial assets or annual revenues should develop and implement a three-tier annual board evaluation process whereby the performances of the board as a whole, each board committee, and each director are evaluated annually. The board should also develop and implement a process for review and evaluation of the chief executive officer on an annual basis.

5. Each board of directors is responsible for overseeing corporate ethics. Ethical conduct, including compliance with the requirements of law, is vital to a corporation's sustainability and long-term success. To establish an ethical corporate culture, the board should consider the following actions:
    a. Communicate to personnel at all levels of the corporation a strong, ethical "tone at the top," set by the board, the chief executive officer, and other senior management, establishing a culture of legal compliance and integrity;
    b. Assign to the chief executive officer or other officer the specific task of serving as compliance officer;
    c. Adopt a Conflicts of Interest policy;
    d. Include ethics-related criteria in employee qualification standards and in employees' annual performance reviews.
6. An independent auditing firm should audit every non-profit corporation with substantial assets or annual revenue annually. The corporation should change auditing firms or the lead and reviewing audit partner periodically to assure a fresh look at the firm's financial statements. The audit committee should be composed of completely independent directors and should set rules and processes for complaints concerning accounting and internal control practices. It is responsible for hiring, setting compensation, and overseeing the auditor's activities.
7. The chief executive officer and the chief financial officer of every non-profit corporation should review annual information returns filed by the non-profit organisation with appropriate agencies.
8. Any lawyer providing legal services to a non-profit corporation who learns of evidence that the lawyer reasonably believes indicates a material breach of fiduciary duty or similar violation should report that evidence to the chief executive officer of the non-profit corporation and, if warranted by the seriousness of the matter, to the board of directors.
9. Every non-profit corporation should adopt a written policy setting forth standards for document integrity, retention, and destruction.
10. Every non-profit corporation should adopt a written policy to permit and encourage employees to alert management and the board to ethical issues and potential violations of law without fear of retribution.

7.2 Proposed Governance Standards in Australia

The following guidelines have been developed with broad national input in Australia. They are recognised as leading edge and have been proposed as a framework for international standards. In the original form, these principles relate to for-profit corporation. They have been modified below to inform the developments of not-for-profit governance:

1. Lay solid foundations for management and oversight by recognising and publishing the respective roles and responsibilities of board and management. The company's framework should be designed to:
    a. Enable the board to provide strategic guidance for the company and effective oversight of management
    b. Clarify the respective roles and responsibilities of board members and senior executives in order to facilitate board and management accountability to both the company and its members
    c. Ensure a balance of authority so that no single individual has unfettered powers.
2. Structure the board to add value by designing a board of an effective composition, size and commitment to adequately discharge its responsibilities

and duties. An effective board is one that facilitates the efficient discharge of the duties imposed by law on the directors and adds value in the context of the particular company's circumstances. This requires that the board be structured in such a way that it:

   a. Has a proper understanding of, and competence to deal with, the current and emerging issues of the business
   b. Can effectively review and challenge the performance of management and exercise independent judgment

   Ultimately, the members elect the directors. However the board and its delegates play an important role in the selection of candidates for member vote.

3. Promote ethical and responsible decision-making by actively promoting ethical and responsible decision-making. The company should:
   a. Clarify the standards of ethical behaviour required of company directors and key executives (that is, officers and employees who have the opportunity to materially influence the integrity, strategy and operation of the business and its financial performance) and encourage the observance of those standards
   b. Publish its position concerning the issue of board and employee ethical behaviour.
4. Safeguard the integrity in financial reporting. This requires the company to put in place a structure of review and authorization designed to ensure the truthful and factual presentation of the company's financial position. The structure would include, for example:
   a. Review and consideration of the accounts by the audit committee
   b. A process to ensure the independence and competence of the company's external auditors.

   Such a structure does not diminish the ultimate responsibility of the board to ensure the integrity of the company's financial reporting.
5. Make timely and balanced disclosure. This means that the company must put in place mechanisms designed to ensure that:
   a. All members/stakeholders have equal and timely access to material information concerning the company – including its financial situation, performance and governance
   b. Company announcements are factual and presented in a clear and balanced way. "Balance" requires disclosure of both positive and negative information.
6. Respect the rights of stakeholders and facilitate the effective exercise of those rights. This means that a company should empower its stakeholders by:
   a. Communicating effectively with them
   b. Giving them ready access to balanced and understandable information about the company and corporate proposals
   c. Making it easy for them to participate in general meetings.
7. Recognise and manage risk. Establish a sound system of risk oversight and management and internal control. This system should be designed to:
   a. Identify, assess, monitor and manage risk
   b. Inform stakeholders of material changes to the company's risk profile.
8. Encourage enhanced performance. Fairly review and actively encourage enhanced board and management effectiveness. This means that directors and key executives should be equipped with the knowledge and information they need to discharge their responsibilities effectively, and that individual and collective performance is regularly and fairly reviewed.

9. Remunerate fairly and responsibly. Ensure that the level and composition of remuneration is sufficient and reasonable and that its relationship to corporate and individual performance is defined. This means that companies need to adopt remuneration policies that attract and maintain talented and motivated employees so as to encourage enhanced performance of the company. It is important that there be a clear relationship between performance and remuneration, and that the policy underlying executive remuneration be understood by stakeholders.
10. Recognise the legitimate interests of stakeholders. Recognise legal and other obligations to all legitimate stakeholders. Companies have a number of legal and other obligations to non-member stakeholders such as employees, clients/customers and the community as a whole. There is growing acceptance of the view that organisations can create value by better managing natural, human, social and other forms of capital. Increasingly, the performance of companies is being scrutinised from a perspective that recognises these other forms of capital. That being the case, it is important for companies to demonstrate their commitment to appropriate corporate practices.

7.3 OECD Principles of Good Governance

In 1998, the OECD produced five principles of good governance, particularly:
1. The corporate governance framework should protect shareholders' rights.
2. The corporate governance framework should ensure the equitable treatment of all shareholders, including minority and foreign shareholders. All shareholders should have the opportunity to obtain effective redress for violation of their rights.
3. The corporate governance framework should recognise the rights of stakeholders as established by law and encourage active co-operation between corporations and stakeholders in creating wealth, jobs, and the sustainability of financially sound enterprises.
4. The corporate governance framework should ensure that timely and accurate disclosure is made on all material matters regarding the corporation, including the financial situation, performance, ownership, and governance of the company.
5. The corporate governance framework should ensure the strategic guidance of the company, the effective monitoring of management by the board, and the board's accountability to the company and the shareholders.

Although the OECD suggests that these principles can be readily modified to reflect the realities of other than publicly traded companies, only the last 2 can be easily adapted to the not-for-profit sector. The following outlines in further detail the last 2 principles, again modified to reflect the not-for-profit sector.

7.4 Principle IV – Disclosure and Transparency

The corporate governance framework should ensure that timely and accurate disclosure is made on all material matters regarding the corporation, including the financial situation, performance, ownership, and governance of the company.

Disclosure should include, but not be limited to, material information on:

1. The financial and operating results of the company.
2. Company objectives.
3. Major share stakeholders
4. Members of the board and key executives, and their remuneration.
5. Material foreseeable risk factors.
6. Material issues regarding employees and other stakeholders.
7. Governance structures and policies.

Information should be prepared, audited, and disclosed in accordance with high quality standards of accounting, financial and non-financial disclosure, and audit.

An independent auditor should conduct an annual audit in order to provide an external and objective assurance on the way in which financial statements have been prepared and presented.

Channels for disseminating information should provide for fair, timely and cost efficient access to relevant information by users.

7.5 Principle V. The Responsibilities of the Board

The corporate governance framework should ensure the strategic guidance of the company, the effective monitoring of management by the board, and the board's accountability to the company and the shareholders.

1. Board members should act on a fully informed basis, in good faith, with due diligence and care, and in the best interest of the company and the shareholders.
2. Where board decisions may affect different shareholder groups differently, the board should treat all shareholders fairly
3. The board should ensure compliance with applicable law and take into account the interests of stakeholders.
4. The board should fulfil certain key functions, including:
    a. Reviewing and guiding corporate strategy, major plans of action, risk policy, annual budgets and business plans; setting performance objectives; monitoring implementation and corporate performance; and overseeing major capital expenditures, acquisitions and divestitures.
    b. Selecting, compensating, monitoring and, when necessary, replacing key executives and overseeing succession planning.
    c. Reviewing key executive and board remuneration, and ensuring a formal and transparent board nomination process.
    d. Monitoring and managing potential conflicts of interest of management, board members and shareholders, including misuse of corporate assets and abuse in related party transactions.

    e. Ensuring the integrity of the corporation's accounting and financial reporting systems, including the independent audit, and that appropriate systems of control are in place, in particular, systems for monitoring risk, financial control, and compliance with the law.
    f. Monitoring the effectiveness of the governance practices under which it operates and making changes as needed.
    g. Overseeing the process of disclosure and communications.
5. The board should be able to exercise objective judgment on corporate affairs independent, in particular, from management.
    a. Boards should consider assigning a sufficient number of non-executive board members capable of exercising independent judgment to tasks where there is a potential for conflict of interest. Examples of such key responsibilities are financial reporting, nomination and executive and board remuneration.
    b. Board members should devote sufficient time to their responsibilities.
6. In order to fulfil their responsibilities, board members should have access to accurate, relevant and timely information.