

Assessing Not-for-profit Boards: Governance Structures and Practices in Canada

Tell them, train them, teach them – you’ll have a better board.

Wednesday, October 7, 2009 – Toronto, ON: - Clear board policies and mandates, formal orientation processes and ongoing director training separate high performance not-for-profit boards from others according to a new survey commissioned by Canadian Fundraising & Philanthropy and Altruvest Charitable Services and conducted by Innovative Research Group.

The survey study, entitled *Assessing Not-for-profit Boards: Governance Structures and Practices*, reveals that not-for-profit organizations that invest in orientation programs for new board members, ongoing director training and documented board policies and mandates are perceived as better organizations overall, have more effective boards and better quality individual board members.

However, among Canadian not-for-profit organizations:

- 7-in-10 (72%) have board manuals available for their board members, though only 43% of these respondents say their board manuals are comprehensive;
- two thirds (68%) have clear mandates for their boards; and
- two thirds (66%) have an orientation program in place for new directors; but
- only a quarter (25%) provide directors with some form of ongoing board training.

“The results of this study remind us that some of the most powerful means of equipping not-for-profit directors to effectively do their jobs as a board member are the most basic: clear mandates, director orientation and ongoing education” said Janet Gadeski, Editor of the Canadian Fundraising & Philanthropy newsletter. “But few not-for-profit boards achieve consistent excellence. The pressure on nonprofits to spend every contributed dollar on mission deters both CEOs and directors from spending any money on organizational capacity-building, including board support. In the minds of the media and the public, and according to Canada Revenue Agency regulations, money spent on board improvement is not a legitimate charitable expense.”

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About This Survey

The survey was conducted for **Canadian Fundraising & Philanthropy** (www.CanadianFundRaiser.com), which provides timely information to nonprofit leaders on news, trends and analysis in the fields of fundraising and nonprofit management and **Altruvest Charitable Services** (www.altruvest.org), the only charitable group in Canada dedicated to providing charities with the governance skills and volunteer leadership that will help them become more efficient, effective and accountable.

This study was conducted among 696 Directors, Executive Director/CEOs and staff of Canadian not-for-profit organizations using an on-line survey. A broad range of sectors were represented, including Arts & Culture, Education, Health Research and Support, Hospital Foundations, Religion and Social 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%).

A sample of this size would have an estimated margin of error of ± 3.7 percentage points, 19 times out of 20. The margin of error will be larger within each sub-grouping of the survey population.

The survey was conducted by **Innovative Research Group**, Inc. (www.innovativeresearch.ca), a national public opinion research firm, between July 10th and July 31st 2009.

This release contains a summary of the detailed findings (pages 3 to 6).

Attribution

In the first instance of mentioning the poll results should be identified as a “*new survey commissioned by Canadian Fundraising & Philanthropy and Altruvest and conducted by Innovative Research Group*”

All subsequent mentions can use the convention “*the INNOVATIVE poll*”.

Copies of the full report can be obtained through the Canadian Fundraising & Philanthropy website at “www.assessingnfpbds.com”.

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DETAILED FINDINGS

To what degree do practices and board structure influence key performance measure?

Respondents to the survey (696 not-for-profit decision-makers) were asked to give their opinion on a variety of organizational performance measures. Responses to performance measures were indexed to create a single score bound between 0% and 100% used to rank not-for-profits. These indexes included:

- high performance not-for-profit organization index
- effective board index
- effective director index

Performance measured used to create the “**high performance not-for-profit organization index**” consisted of the following statements:

- My organization has a three-to-five year plan or set of clear long range goals and priorities.
- My organization has a detailed one-year plan for operations.
- My organization maximizes its revenue generation capacity through fundraising.
- My organization ensures accountability and stewardship for all benefactors.
- My organization’s accomplishments and challenges are communicated to members and stakeholders effectively.
- My organization uses its financial and human resources prudently and effectively.
- My organization is fiscally responsible.
- My organization makes clear and conscious decisions.
- My organization has a positive image within the community.
- My organization has a detailed risk management plan.

A 0% index rating represents a scenario where respondents would have answered “strongly disagree” to every statement. On the other hand, a 100% index rating represents a scenario where all respondents would have answered “strongly agree” to every statement.

Performance measured used to create the “**effective board index**” consisted of the following statements:

- Most Board Members seem to come to meetings prepared.
- My Board Members receive written operations reports to the Board in advance of our meetings.
- All Board Members participate in important Board discussions.
- My Board Members do a good job encouraging and dealing with different points of view.
- The Board has planned and led the orientation process for new Board Members.
- The Board has taken responsibility for recruiting new Board Members.
- All of our Board Members financially support my organization.
- The Board conforms to its by-laws in areas such as positions on the Board, quorum at meetings, or remuneration of directors.

Performance measured used to create the “**effective director index**” were asked only of board members who responded to this survey and consisted of the following statements:

- I am aware of what is expected of me as a Board Member.
- I have a good record of meeting attendance.
- I read the minutes, reports and other materials in advance of our Board meetings.
- I am familiar with what is in the organization’s by-laws and governing policies.

- I frequently encourage other Board Members to express their opinions at Board meetings.
- I follow through on things I have said I would do.
- I maintain the confidentiality of all Board decisions.
- I stay informed about issues relevant to our mission and bring information to the attention of the Board.
- I voluntarily make a personal annual donation commensurate with my ability to do so.
- I understand that fundraising is part of my role as a Board Member.

Hospital foundations and large charities (fundraising revenues over \$5 million in 2008) scored highest on these performance measures. Those qualities include a commitment to orientation and ongoing training, a complete board manual, a high retention rate and directors' and officers' liability insurance. Education and micro charities (fundraising revenues under \$100,000 in 2008) ranked the lowest – but the difference between the scores was only marginal in most cases.

Using multivariate analysis, this study also isolates the key drivers that help determine what makes high-performance not-for-profit organization, boards, and individual board members.

In the analysis, orientation programs for new board members, ongoing director training and have documented board policies and clear mandates are described by the most powerful factor, *Formal Board Structure & Procedures*.

Characteristics of a high performance not-for-profit organization:

- **Formal Board Structure & Procedures** – respondents who say their organization has a formal structure are more likely to believe they work at a high performance organizations
- **Board Manual** – the more comprehensive a Board manual, the more likely respondents are to believe their not-for-profit is a high performance organization
- **Organizational Size** – respondents from larger organizations are more likely to believe their not-for-profit is a high performer than respondents from smaller organizations
- **Educational Not-for-profits** – respondents from educational-based organizations are less likely than other types of not-for-profits to be consider their not-for-profit a higher performing organization
- **Insurance** – respondents from organizations that have directors and officers liability insurance are more likely to believe their not-for-profit is a high performance organization

Characteristics of an effective board:

- **Formal Board Structure & Procedures** – respondents who say their organization has a formal structure are more likely to believe they have effective Board
- **Board Manual** – the more comprehensive a Board manual, the more likely respondents are to believe their board is effective
- **Executive Directors** – CEOs/EDs of organizations are less likely than other staff to believe their Board effectively conducts itself
- **Length of time it takes Board Members to become fully engaged** – longer it takes Board Members to become fully engaged, the less likely respondents are to believe their Board effectively conducts itself
- **Insurance** – respondents from organizations that have directors and officers liability insurance are more likely to believe their board is effective
- **Region** – Quebec-based respondents are more likely than respondents in other regions of the country to believe their Boards effectively conduct themselves

- **Length of time at organization** – the longer a Board Member serves an organization (in one capacity or another), the more likely respondents are to believe their Board effectively conducts itself
- **Organizational Size** – respondents from larger organizations are more likely to believe their board effectively conducts itself.

Characteristics of an effective director:

- **Formal Board Structure & Procedures** – board members who say their organization has a formal structure are more likely to rank themselves as an effective director
- **Length of time it takes directors to become fully engaged** – longer it takes a director to become engaged with their not-for-profit, the less likely they are to score themselves as an effective director
- **Length of time at organization** – the longer a director serves an organization, the more likely they are to score themselves as an effective director
- **Executive Directors** – although this finding isn't as robust as other findings in this study, the data suggests that Executive Directors / CEOs who sit on their not-for-profit's board are less likely to score themselves as an effective director

“All of these findings have one thing in common: not-for-profit organizations with formal board structures and procedures are better organizations, have better boards and benefit from higher performance by individual board members” said Gadeski. “Aside from regional and sectoral differences, we can see that key performance measures are largely influenced by basic investments in formal policies, procedures and continued training at the board level.”

So what doesn't matter?

Some of the practices and board structures that do not influence key performance measures include:

- Number of directors on a board;
- Frequency of board meetings;
- Length of board terms;
- Number of board term renewals; and
- Maturity stage of an organization

Convergence with the For-Profit Governance Structures

“While significant differences exist between the not-for-profit and for-profit sectors, the findings in this study suggest a convergence in perspectives as to what constitutes appropriate governance” said Dr. David Anderson, Chair of Altruvest Charitable Services who works with boards in both the for-profit and not-for-profit sector.

“The big players in the not-for-profit sector are only slightly better than small charities at making their board members successful. That's good news! It means board effectiveness is more about intention and follow-through than size or money” said Anderson.

“Not-for-profit organizations have the ability to influence the outcomes of board effectiveness through investment in areas such as robust orientation programs, training and role clarity through mandates and practical board manuals” added Anderson. “Above all, this study should help decision-makers at not-for-profit organizations in answering key performance-related questions and may provide justification for the enhancement of board programs and policies over time.”

Recession still holds a grip on ability for sector to solicit funds

In addition to asking questions about governance, this study also asked respondents to provide an economic outlook for the sector.

- A third (34%) of not-for-profit organizations are expecting a decrease in financial contributions this year across all sources (e.g., individuals, corporations, foundations, government) while 37% expect contributions to remain constant and 29% expect to receive an increase in contributions.
- This is a slight improvement in the economic outlook from January 2009 where 40% of respondents to a similar not-for-profit sector survey conducted by INNOVATIVE expected financial contributions to decrease; 31% expected contributions to stay about the same; and 26% expected to increase contributions.

“Although these findings reveal there has been a slight improvement in terms of the not-for-profit sector’s ability to solicit funds, it is certainly a far cry from the near double digit growth rate that some not-for-profit sectors experienced in fundraising revenues between 2001 and 2007” said Jason Lockhart, a Senior Consultant at Innovative Research Group, who tracks the annual financial performance of charities across Canada using tax filing data. “With only 29% of not-for-profit organizations expecting an increase in total contributions this year, it will likely be a while before we see a return to the growth rates we saw in fundraising revenues over the previous few years.”

According to Lockhart, between 2001 and 2007, the average Canadian charity reported an annual fundraising revenue growth rate of 6.6%. Social services on the other hand, experienced the largest growth over the same period with an annual growth rate of 9.9%.