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House of Sand or Foundation of Stone: The Board of Directors/Trustees

Audio Dial-In Information:
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What is "governance"?

- "Means in which the leading authority, often the board of directors in foundations, guides and monitors the **values** and **goals** of its organization through policy and procedures."
www.pfc.ca/cms_en/page1112.cfm



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Governance

Too often, "good" governance looks like....

- Conflict of interest policy
- Whistleblower protection policy
- Documents destruction policy



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Governance as a Foundation

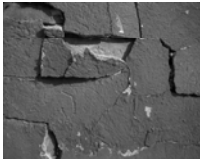
- “means” (policies and procedures) versus “ends” (**values** and **goals**)
 - Good governance is effectively advancing the values and goals of the organization, NOT
 - Having certain policies and procedures in place
 - The Law of Unintended Consequences and Governance Best Practices
 - Conflict of interest policies
 - Whistleblower policies

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The Nonprofit Board is...

- The foundation of a nonprofit.
- Inattention to its **makeup** and **upkeep** may not be visible from the street, but can spell disaster in the long term.
 - *The Money Pit* (1986)




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Common Risks Exacerbated by Ineffective Governance

- Rapid leadership tenure and turnover (paid staff *and* volunteers)
- Lack of trust between staff and volunteers
- Actions that benefit one component of the nonprofit while putting the overall organization at a disadvantage



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Inspired Governance...

- BEYOND compliance
- Guiding and monitoring the values and goals an organization to advance its mission
- Looking beyond the past and present to “what could be”
- Asking: **what big risks could we take to advance our mission?**

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Tied to Legal Duties

Duty of Care

- “care and concern”
- time and attention

Duty of Loyalty

- putting the nonprofit’s interests above personal interests

Duty of Obedience

- obedience to mission, values

What about the Duty of Dissent? “The desire for consensus—harmony and agreement—can be so overpowering that it largely nullifies critical thinking.”

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What are the Barriers to Inspired Governance?

- Failure to train
- Lack of teamwork and cohesiveness
- Pass the buck syndrome – “that’s why we have a finance committee!” (counsel, auditor, etc.)
- Head in the sand syndrome
- Unwillingness to explore perceptions and biases about risk

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Failure to Train

- Obsessive commitment to board diversity*
+ assumption that everyone is “on the same page” = board dysfunction
- Better assumption: everyone comes with a different version of the hymnal
- Schedule board orientation and training without delay

*desire to have representation from various stakeholder groups
**diversity of perspective (and other forms of diversity) is a very good thing!

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Lack of Teamwork and Cohesiveness

- Sitting around a board table doesn't create a team
- What are the board's operating rules and procedures?
 - Overall structure – what works here? Striking balance between sense of being involved versus feeling overburdened
 - Relationships with staff
 - Committee work versus matters for the full board

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Pass the Buck Syndrome

- A healthy division of labor is a good thing; avoiding responsibility is not.
- For example, the existence of a Finance Committee does not exempt the remaining members of the board from their responsibility for fiscal oversight.

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Head in the Sand Syndrome

- “We had no idea what was going on?!”
- The cure:
 - Commit to holding staff and each other accountable
 - Asking tough questions - “does this make sense?”
 - Cultivating a **culture of candor**

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Perceptions and Biases About Risk


- May be unspoken, unless discussion is prompted by the nonprofit’s leaders
- Common mistakes:
 - Delegating risk to a third-party or viewing risk management and insurance buying as synonymous
 - Assuming that risk is the staff’s responsibility
 - Confusing “risks” and “problems”

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Is it Risk?

- Risk events:
 - chance of occurring is > 0% and < 100%.




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... or is it a problem?

- A “problem” is not a risk... ??
- What's the difference between a problem and a risk?
 - **UNCERTAINTY**



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Risk Perception

what influences the board's view of risk?

- **Representativeness** – e.g., brand name
- **Anchoring** – “first impressions say a lot!” – our ability to evaluate safety/exposure may be tainted by early experience (good or bad)
- **Voluntariness** – choice to participate

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Learning to Take *More* Risk

- What haven't we accomplished with respect to our mission?
- What “big risks” could we take to bring the nonprofit closer to fulfilling its mission?
- What underutilized resources can we tap to manage these new risks?

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What clouds the board's lens?

- **View is related to vantage point**
- **Sometimes vantage point leads to catastrophic overconfidence (in people, systems, etc.)**
 - Lack of incentive to be honest about risk
 - Investigation of the *Challenger* incident (Richard Feynman)
 - Extraordinary differences in predictions of failure (loss of equipment and human life)
 - Engineers: 1:100; Management: 1:100,000

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What is Risk Management?

- **A planning discipline**
 - 80% - planning for performance
 - 20% - planning for trouble
- **A discipline for dealing with uncertainty**

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Changing the Way the Board Perceives and Manage Risk

1. Model enlightened risk-taking
2. Elevate the discussion of risk
3. Embrace uncertainty
4. Appreciate relativity
5. Look beyond the obvious (e.g., ultra-hazardous activities) and focus on threats to mission fulfillment
6. Recognize the need for gradual culture change

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1. Model Enlightened Risk-Taking

- What risks should we be taking to advance our mission?
- What additional information do we need to proceed?
- What is the risk of NOT acting?

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2. Elevate the discussion of risk

- How often does your board talk about risk?
- How would you rate the board's awareness about risk?
- Other models – e.g., UK Charity Commission

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4. Appreciate Relativity

- We view everything through a lens of relativity... events, situations and exposures are compared to others within our grasp or recent experience.

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5. Look beyond the obvious

- \$525 Million
- \$16 Billion
- \$24 Billion
- \$350 Billion
- \$600 Billion
- Tax fraud
- Property insurance fraud
- Robberies
- Embezzlement and expense report fraud
- Wardrobing

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6. Recognize the need for gradual culture change

- **Culture of candor**
 - "Mistakes were made... possibly by me"
 - What steps are you taking to encourage staff to admit to mistakes?



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UK Charity Commission

- **“Summary Information Return of Aims, Activities and Achievements.”** *Accounting and Reporting by Charities – Statement of Recommended Practice*
- Trustees are required to make a statement confirming that: “...the major risks to which the charity is exposed, as identified by the trustees, have been reviewed and systems have been established to manage those risks.”

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- Charity trustees are expected to make a “positive statement” within “reasonable confidence.”
- “Risk” is used...to describe the uncertainty surrounding events and their outcomes that may have a significant effect, either enhancing or inhibiting:
 - operational performance;
 - achievement of aims and objectives; or ←
 - meeting expectations of stakeholders.

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What role for Trustees?

- The level of involvement should be such that the trustees can make the required statement on risk management with reasonable confidence. This is likely to involve:
 - ensuring that the identification, assessment and **management of risk is linked** to the achievement of the charity’s operational **objectives**;
 - ensuring the process covers all areas of risk e.g., financial, governance, operational and reputational and is focused primarily on major risks;

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- ensuring that the process seeks to produce a risk exposure profile that reflects the trustees' views as to levels of acceptable risk;
- reviewing and considering the principal results of risk identification, evaluation and management;
- ensuring that the risk management is ongoing and embedded in management and operational procedures.

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Key Questions

- Is management of RISK linked to objectives?
- Does our risk management effort cover all areas of risk? How do we rate board awareness?
- Does our risk profile reflect our views about levels of acceptable risk?
- Do we review the results of the risk management effort?
- Is risk management ONGOING and IMBEDDED?

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Optional "Homework"

- **Failure to train** – What changes are warranted to help board members discharge their duties and perform at the highest possible level?
- **Lack of teamwork and cohesiveness** – Is there evidence of passing ships, unresolved friction, or unproductive posturing? What can we do to address these cracks in our foundation?
- **Pass the buck syndrome** – Do any members of the board believe they are exempt from oversight duties?
- **Head in the sand syndrome** – Are there *any* critical issues that the board doesn't know about? Tip: corporate relationships, client/volunteer unhappiness, financial trends, crisis in the making...

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What I'm Reading...

- **Blind Spots: Why Smart People Do Dumb Things**, by Madeleine L. Van Hecke, PhD
- **The Drunkard's Walk: How Randomness Rules Our Lives**, by Leonard Mlodinow

Favorites from 2009

- > **Struck by Lightning: the curious world of probabilities**, by Jeffrey S. Rosenthal
- > **The Law of Averages**, by Sam Savage
- > **Predictably Irrational**, by Dan Ariely
- > **A Complaint is a Gift-2nd Edition**
- > **Managing Crisis**, Harvard Business Press, Pocket Mentor

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My Risk Management Policies

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Welcome!

My Risk Management Policies was developed to help you create custom policies for your nonprofit. In a matter of minutes, you'll be able to create policies that suit the mission, culture, and circumstances of your organization. You will be free from the guilt (and dread) associated with copying another organization's policies, and you will be taking a giant leap forward to protect the vital mission of your nonprofit.

To begin using the program click on "Subscribe" at the top of this screen. After providing basic contact information, use a credit card to pay the affordable one-time licensing fee of \$179. As soon as you've completed our secure check out, you're ready to start creating policies. If at any time you want to stop, simply logout and return at your convenience. All of the policies you've started or completed will be saved on the site.

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My Financial Management Plan

FAQs | Learn More | Register | Subscribe | Login

Welcome!

Welcome to *My Financial Management Plan*, the online tool that helps you create a customized financial management plan for your nonprofit.

If you want to integrate your finance, accounting, budgeting and reporting policies and practices into a comprehensive plan, you've come to the right place. Using the easy-to-follow modules in *My Financial Management Plan*, you will create, update and/or upgrade your key policies; enhance accountability; improve communication between staff, board, funders and other stakeholders; and save time by streamlining your financial management.

My Financial Management Plan is brought to you by the Nonprofit Risk Management Center, an organization committed to helping nonprofits make a difference while managing resources effectively.

To begin, click "Login" above. If you're new to this site, click "Subscribe." You may also sign up to receive periodic emails and announcements from *My Financial Management Plan* by clicking "Register."

Classroom

- Functional Accounting

Help

- Ask a Question

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My Plan

There are two sections below that will allow you to build and manage the financial management plan for your organization. Click on the heading to expand or contract the section content.


Plan Modules

Use this section to complete the questionnaires for each plan module. Your responses to the questionnaires will be the basis for creating your Financial Management Plan. Click the heading above to begin or to continue working with the modules. The modules to build your financial management plan are shown below. You may click on the link below the name of the module to access the module questionnaire. You can quickly determine your overall plan progress by the color of the module name and link. If the color is:


- red - you are ready to start.
- blue - you have answered some, but not all module questions.
- green - you have completed all module questions.




Get Started
Complete/Review



Board Fiduciary Responsibility
Complete/Review















Financial Literacy
Complete/Review



Managing Fraud Risk
Resume

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 Chart of Accounts Complete/Review	 Cost Allocation Complete/Review
 Joint Cost Issues Begin	 Grants and Contributions Begin
 Classifying Net Assets Begin	 In-Kind Contributions and Expenses Begin
 Individual Donations Begin	 Budgeting Begin
 Managing Cash Flow Begin	 Financial Statements and Financial Reporting Begin
 IRS and the Form 990, Part 1 Begin	 IRS and the Form 990, Part 2 Begin
 Government Money Begin	 The Audit Process Begin
 Return on Investment Analysis Begin	 Investment Policies Begin

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EXPOSED

A LEGAL FIELD GUIDE
FOR NONPROFIT EXECUTIVES

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**READY...
OR NOT!**

A Risk Management
Guide for
Nonprofit Executives

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Thank you!

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Next Month's Webinar

- **The Deep End: Nonprofit Finance and Audit Committees**
- February 3, 2010 – 2:00 pm Eastern

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