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Peering into the Future

Reimagining Governance in
the Non-Profit Sector

BY LISA LALANDE



Enabling
Environment

MowatNFP

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This research series from Mowat NFP explores different dimensions of an enabling environment in the relationship between the charitable and non-profit sector and government. The series is in partnership with Imagine Canada and intended to help the federal government and the charitable and NFP sector develop a modern federal policy framework that enables the sector and strengthens its ability to improve the quality of life of Canadians and people around the world.



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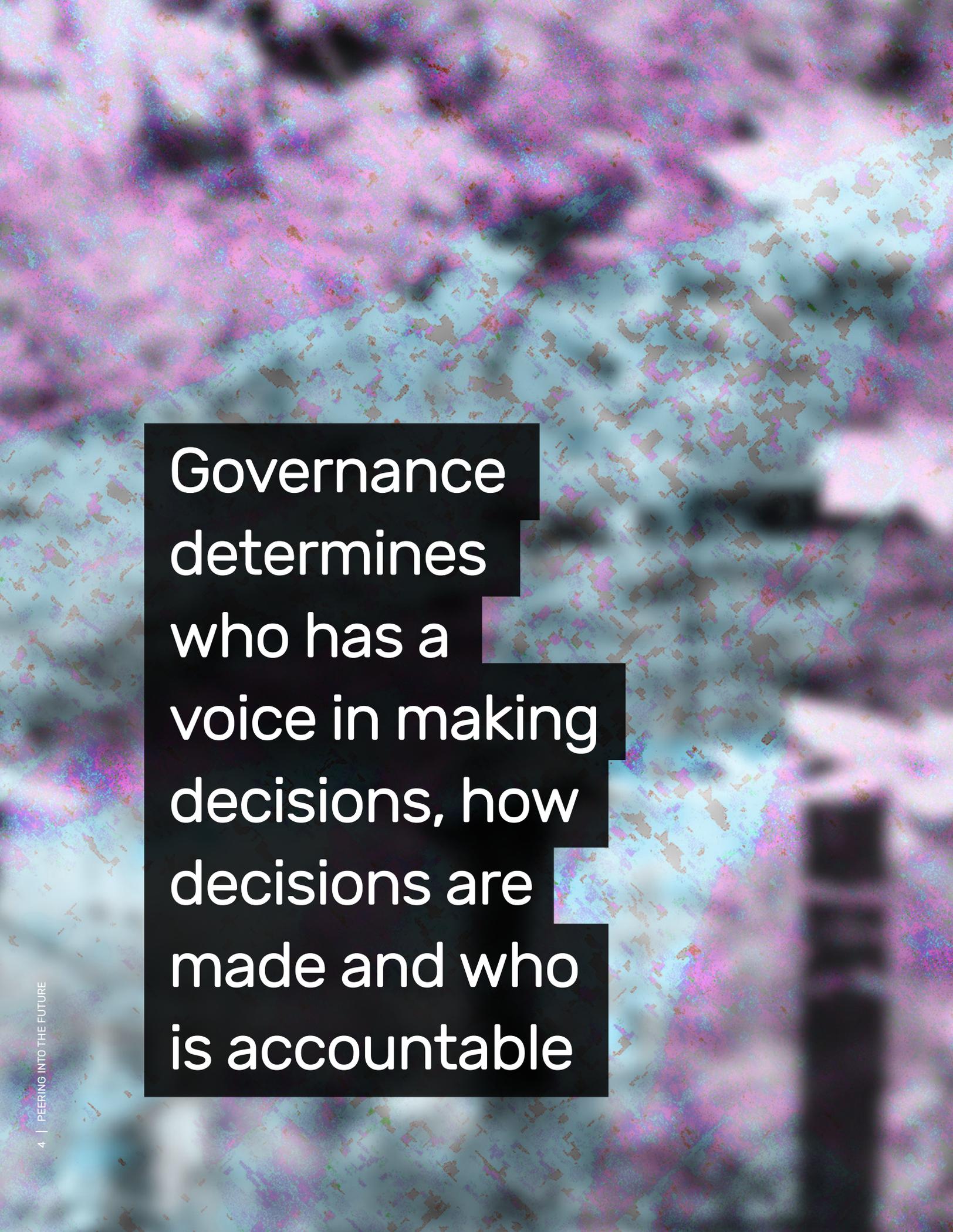
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Governance
determines
who has a
voice in making
decisions, how
decisions are
made and who
is accountable

1 INTRODUCTION

Governance is one of the most challenging and complex issues in the non-profit sector. The legislative and regulatory requirements for non-profit governance are limited and vary from province to province. There is no prescriptive “one size fits all” model of governance. Despite numerous efforts to find and support effective governance models, functions and frameworks, many sector leaders still struggle to fulfil the roles and responsibilities expected of them.¹

There is much at stake when governance is ineffective. Resources may be misused or misdirected, an organization’s strategic goals may be misaligned, its reputation may be weakened, poor working conditions for staff could arise,² and members of the board can be held personally and professionally liable. Ultimately, ineffective governance compromises an organization’s ability to meet the needs of its beneficiaries or key stakeholders.

With so much literature on effective governance, why does it seem to be working for so few organizations?

Emerging trends in the non-profit sector are altering expectations of governance. Non-profit organizations are experiencing a growing demand for their services from increasingly diverse communities and increasing demands from governments and funders. There is also greater focus on collaboration, mergers, network-based models of organizing, cross-sectoral partnerships and common approaches to measuring impact in the sector. At the same time, technological changes and a new generation of leaders are changing how non-profits work and how they interact with and engage one another, funders and the public.³ These developments are creating tensions within organizations that can be difficult to reconcile.

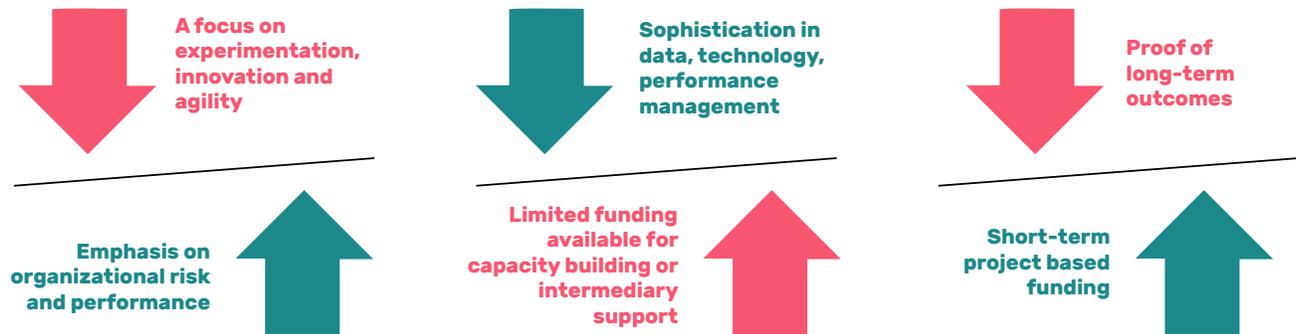
1 Meehan III, W.F. and Starkey Jonker, K. (2017). *Filling Essential Gaps in Non-profit Leadership*. Available at: https://ssir.org/articles/entry/filling_essential_gaps_in_nonprofit_leadership.

2 Van Ymeren, J. and Lalande, L. (2015). *Change Work: Valuing Decent Work in the Not-for-Profit Sector*. Mowat Centre, Mowat NFP. Available at: <https://mowatcentre.ca/change-work/>.

3 Ontario Non-profit Network (2017). *Leadership in changing times*. Toronto: ONN. Available at: http://theonnc.ca/wp-content/uploads/2015/12/Report_LeadershipInChangingTimes_ESDC_2015-11-17-2.pdf.

FIGURE 1

Organizational Tensions



This leads to a fundamental question: can traditional approaches to governance respond to these changing realities? Governance is typically regarded as something that boards do, and problems with governance are usually understood as problems with board performance.⁴ However, a focus on the board as the only mechanism of governance may no longer be sufficient for an increasingly complex environment. There is growing literature that suggests that new, transformative and adaptive approaches to governance are needed to ensure better responsiveness to social issues, system-wide impact and adaptability to the changing environment. This thinking envisions governance as more collaborative - a function that can be shared and not limited to the board.⁵

This paper focuses on how non-profit organizations can adapt to an increasingly complex environment by reimagining governance. It addresses how boards, leaders, staff and key stakeholders can work together to contribute to effective organizational governance from a strategic perspective. Specifically, this paper will:

- » Explore the current state of governance in the sector, including the legislative, regulatory and policy environment.
- » Identify emerging trends and challenges that impact governance at both the organizational and sector level.
- » Discuss promising practices and key considerations to improve the current state of governance.
- » Provide recommendations to improve the sector's capacity for "future-oriented governance."

4 Ryan, W, Chait, R, and Taylor B. (2018). *Problem Boards or Board Problem?* Non-profit Quarterly. Available at: <https://non-profitquarterly.org/2018/04/20/problem-boards-or-board-problem/>.

5 Freiwirth, J. (2011). *Community-Engagement Governance: Systems-Wide Governance in Action.* Non-profit Quarterly. Available at: <https://non-profitquarterly.org/2011/05/09/communityengagement-governance-systems-wide-governance-in-action/>.

Research Approach

This paper will serve as a foundational research document for the collaborative initiative, Reimagining Governance, which seeks to advance new approaches to the governance of non-profit organizations. Based on findings from a series of research papers and contributions from thought-leaders, the initiative will provide ideas and strategies to help non-profits to fulfill governance more effectively. While lessons in this paper can inform governance for all sizes of non-profits, the initiative is targeted to core non-profit organizations that have enough staff capacity to fulfill at least basic governance functions of their organization. This paper is also part of Mowat NFP's Enabling Environment series, which aims to help governments and the charitable sector develop modern policy frameworks that strengthen the sector's ability to build thriving communities and improve wellbeing.⁶

This paper uses Cornforth's (2011) definition of a "governance system" as a starting point. This definition describes governance as "a framework of responsibilities, requirements and accountabilities within which organizations operate, including regulatory, audit and reporting requirements, and relationships with key stakeholders."⁷

The research process for this paper included a comprehensive review of academic and non-academic literature and interviews with key informants. The paper also includes findings from three focus groups conducted in urban and rural areas with the support of United Way Greater Toronto, Ignite NPS, M. Struthers & Co., Community Foundations Grey Bruce, United Way Grey Bruce and Vantage Point. Focus group participants included governance experts, board members, executive directors, youth representatives, sector leaders and subject matter experts (i.e. diversity, scaling, social finance, etc.). The themes that emerged from these focus groups provide a helpful starting point for discussion about reimagining governance in the non-profit sector. This paper also draws on findings from five informal surveys that sector umbrella organizations/associations distributed through national, provincial or regional communication channels. The survey respondents included executive directors and board members of non-profit organizations, as well as funders of non-profit organizations. Respondents were not considered a representative sample of the non-profit sector.

The last major national study on governance in Canada's non-profit sector focused on board governance and was conducted in 2005.⁸ A more recent study on board governance in the US was completed in 2015.⁹ The findings from these studies are similar to what we found in Ontario through the interviews, focus groups and surveys; as a result, this paper draws on their conclusions.

6 We define an enabling environment as one where the government safeguards the public interest, supports the sustainability of charities and non-profits and optimizes the policy landscape for innovation and experimentation. Lalande, L. and Cave, J. (2017). *Charting a Path Forward: Strengthening and Enabling the Charitable Sector in Canada*. Toronto: Mowat Centre. Available at: <https://mowatcentre.ca/charting-a-path-forward/>.

7 Cornforth, C. (2011). "Nonprofit Governance Research: Limitations of the Focus on Boards and Suggestions for Further Research". *Nonprofit and Voluntary Sector Quarterly* 41(6): 1116-1135.

8 Bugg, G. and Dalhoff, S. (2006). *National Study of Board Governance Practices in the Non-Profit Sector*. Available at: http://www.strategicleveragepartners.com/bhq768kjmhgqvxxyxwq/National_Study_of_Board_Governance_Practices_in_the_Non-Profit_and_Voluntary_Sector_in_Canada.PDF.

9 Larcker, D. Donatiello, N., Meehan, B., and Tayan, B. (2015). *2015 Survey on Board of Directors of Nonprofit Organizations*. Graduate School of Stanford Business, The Rock Center for Corporate Governance, BoardSource, and GuideStar. Available at: <https://www.qsb.stanford.edu/faculty-research/publications/2015-survey-board-directors-nonprofit-organizations>.

2 CONTEXT

Governance is about who has a voice in making decisions, how decisions are made and who is ultimately accountable.¹⁰ Non-profit governance involves setting organizational direction and policies, overseeing performance and ensuring compliance and accountability.

There is an assumption that boards are the sole locus of governance for their organizations. As a result, much of the focus has been on improving board governance. However, there are no statutory requirements for boards to act as the sole governance entity of a non-profit organization. Governance is a series of functions that must be fulfilled and a board is a structure to assist in that process.

Organizations can maintain significant discretion in the structure and focus of their governance body. Because the legislative requirements are limited and vary from province to province, a wide variety of governance options for the sector are possible.

FIGURE 2

Governance Functions



What are the legal and regulatory governance requirements for non-profits?

While there are clear provisions in provincial and federal legislation for the number of directors on a board and their responsibilities in incorporating the organization, there is very limited direction on the board's purpose and structure as a whole.

Incorporated non-profit organizations must have a board of directors and their central purpose is to ensure that resources are used efficiently and appropriately. In other words, boards must provide organizational oversight to ensure the organization is realizing its mission. They must also act in the best interests of the organization (fiduciary duty). Other statutory requirements may apply, depending on the types of programs and services an organization

¹⁰ Institute on Governance. Available at: <https://iog.ca/what-is-governance/>.

delivers.¹¹ While boards can delegate responsibilities and activities to management or any other person(s), they have ultimate accountability and liability.

FIGURE 3

Organizational Governance Requirements



Notably, there is no standard size for all boards and the legal requirement varies by province. In Ontario, non-profits require a minimum of three directors for incorporation¹² and there are no rules on term limits for membership.¹³ Boards are generally elected by the membership of the organization. Boards may also appoint/designate the leader of the organization (CEO

11 In Canada, non-profits and charities are registered under federal or provincial legislation. Provincial legislation differs from province to province. Some organizations are also subject to provincial legislation specific to their area of focus (e.g. health, criminal justice, children). As well, the Canada Revenue Agency Charities Directorate does provide some oversight for the governance of registered charities under the *Income Tax Act* as part of the process to apply for charitable status.

12 Government of Ontario (2017). "Not-for-Profit Corporations Act". <https://www.ontario.ca/laws/statute/10n15>.

13 There are limits on how long a board term can be (i.e. four years under CNCA), but there are no limits on the number of terms. Unless a member does something illegal (and there are no existing board policies) they can stay on in perpetuity.

or Executive Director). However, management is responsible for hiring employees to operate the organization.¹⁴

Beyond these rules, a non-profit organization's approach to governance (specific structures, processes and practices, including their bylaws) can largely be self-determined.

What does the research indicate about effective organizational governance?

There is no ideal or most effective model of governance that will work for all organizations¹⁵ – there are a variety of governance models that organizations in the sector can adopt.¹⁶ The governance model an organization chooses will be influenced by the internal characteristics of an organization, the environment they operate in and the culture and maturity of the organization.¹⁷

14 Taylor, D. (2014). "Governance for Not-For-Profit Organizations: Questions for Directors To Ask". Chartered Professional Accountants of Canada. Available at: <https://www.cpacanada.ca/en/business-and-accounting-resources/strategy-risk-and-governance/not-for-profit-governance/publications/governance-for-nfp-organizations-directors-questions>.

15 Armstrong, R. (2005). "Policy Governance Models – A Discussion Paper." Vision Management Services. Available at: http://altruvest.org/wp-content/uploads/2017/03/Article-16-Policy_Governance_Models_Discussion_Paper.pdf.

16 For a useful, but not exhaustive list of governance models, please refer to McNamara, C. (2008). "Field Guide to Developing, Operating and Restoring Your Nonprofit Board". Authenticity Consulting LLC. Available at <https://managementhelp.org/misc/New-Nonprofit-Board-Models.pdf>.

17 Armstrong, R. (2005). "Policy Governance Models – A Discussion Paper." Vision Management Services.

Much of the literature on effective non-profit governance emphasizes building exceptional boards. It suggests that boards are more effective when they fulfil a broad scope of functions for an organization such as:

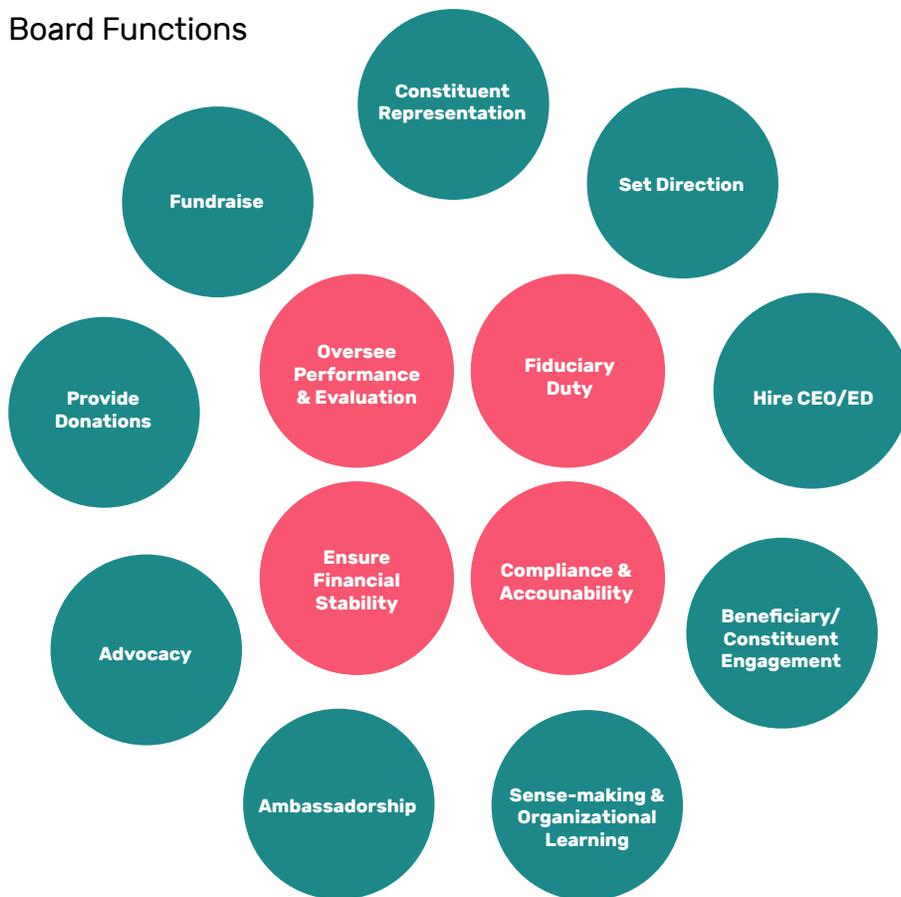
- » Representing the needs of beneficiaries/ stakeholders.
- » Developing strategic plans and linking budgeting to operational planning so financial goals are realistic.
- » Ensuring outcome indicators and performance targets are in place and monitoring progress.

» Generative thinking (sense-making) – this involves knowing what to pay attention to, unpacking what it means for the organization and mission, and determining what to do about it.¹⁸

There is also growing emphasis on board members supporting advocacy efforts, making personal financial contributions, acting as ambassadors (providing legitimacy and credibility to the organization’s activities), assisting the organization in its ongoing fundraising activities, and participating in related committees or taskforces.¹⁹

FIGURE 4

Board Functions



18 Chait, R., Ryan, W. and Taylor, B. (2005). "Governance As Leadership". http://www.pewtrusts.org/~media/legacy/uploadedfiles/wwwpewtrustsorg/reports/pew_fund_for_hhs_in_phila/governance20as20leadership20summary20finalpdf.pdf.

19 Armstrong, R. (2005). "Policy Governance Models – A Discussion Paper." *Vision Management Services*.

In practice, effective organizational governance is influenced by the life-cycle of the board, the organizational structure and culture, the power dynamics between board and staff, and the leadership of the board chair and Executive Director.^{20 21}

What is the current state of non-profit organizational governance?

“On the one hand, boards are touted as a decisive force for ensuring accountability of non-profit organizations. On the other hand, the board is widely regarded as a problematic institution.”²²

Despite the variety of governance models and frameworks, many organizations report having difficulty establishing a governance structure that meets their needs. While there are successful examples of board governance in Canada, many organizations struggle with leadership and management issues.²³ This has led to an increase in educational material, training and resources dedicated to improving board performance.²⁴ Despite this, our research suggests that many boards remain underutilized, ineffective, dysfunctional or overburdened with operational issues.

Few organizations reported allocating dedicated resources for governance activities or evaluation. Many lack formal governance structures and processes including formal risk management or crisis management policies.^{25 26 27}

Liability remains a key concern for boards. Individual board members can be held liable when their actions are out of the scope of directors and officers’ liability insurance – namely, that they act outside the scope of their duties (particularly if those actions are dishonest, fraudulent or criminal), breach a contract, are subject to complaints under a human rights code or fines/penalties as outlined by statute.²⁸ However, these types of liability issues are quite unusual - approximately 90 per cent of liability claims against non-profit organizations are settled by insurance companies out of court.²⁹ The threat of individual board member liability creates a strong focus on risk management within the board and across the organization as a whole.³⁰

Many board members also report feeling disengaged, without clear understanding of their roles and obligations.³¹ They may also be expected to make decisions about the organization and its sustainability based on broader trends and issues within the sector with which they are unfamiliar.

20 Bradshaw, P., Hayday, B., Armstrong, R., Levesque, J. and Rykert, L. (2007).

21 Bugg, G., Dalhoff, S. (2006).

22 Ryan, W., Chait, R. and Taylor, B. (2017). *Problem Boards or Board Problem?* Non-profit Quarterly. <https://non-profitquarterly.org/2017/05/08/problem-boards-or-board-problem/>.

23 Larcker, D. Donatiello, N., Meehan, B., and Tayan, B. (2015).

24 Ryan, W., Chait, R. and Taylor, B. (2017).

25 Bugg, G., Dalhoff, S. (2006).

26 Larcker, D. Donatiello, N., Meehan, B., and Tayan, B. (2015).

27 Ministry of Citizenship and Immigration, Ontario Government. (2009). *Taking Risks the Safe Way: Risk Management and Insurance Practices of Ontario’s Voluntary Sector*. Available at: <http://www.citizenship.gov.on.ca/english/publications/docs/takingriskssafeway.pdf>.

28 Volunteer Canada (2002). “Directors’ Liability: A Discussion Paper on Legal Liability, Risk Management and the Role of Directors in Nonprofit Organizations”. https://volunteer.ca/vdemo/EngagingVolunteers_DOCS/Directors%20Liability%20Discussion%20Paper.pdf.

29 Rosenfield, E. (2009). “Legal Claims Involving Non-Profit and Voluntary Organizations in Canada, 1999-2009”. *Imagine Canada*.

30 Volunteer Canada (2002).

31 Larcker, D. Donatiello, N., Meehan, B., and Tayan, B. (2015).



Informants and focus group participants talked about how executive directors often spend a great deal of time keeping board members informed and involved so they can make necessary decisions. This can impact the Executive Director's ability to do the core work of running the organization. Others indicated they avoid this 'managing up' by carefully selecting what board members see and weigh in on. However, this approach can create situations where boards are making critical strategic directions for the organization without a complete picture of the issues.

"When a board chair changes, the organizational culture and agenda can change based on the interests of the new chair. Even though there is a strategic plan, the Executive Director is expected to make these shifts."

RUTH ARMSTRONG
VISION Management Services

In contrast, other boards act as functional boards – fulfilling operational functions due to lack of staff capacity. This approach leaves few opportunities for boards to be future-oriented and provide strategic leadership to the organization.

Focus group participants also identified inherent challenges with some member-driven governance models such as those used in federations.³² In these contexts, boards have a tendency to focus on self-preservation rather than on shared interests.

Recent research suggests that the source of the problem may not be rooted in board performance, but rather a lack of purpose in board work.³³ But there may be other, more interconnected issues influencing and impacting governance in the non-profit sector.

³² The Ontario Nonprofit Network defines a federated nonprofit as "a network or partnership that serves a public good and includes a national or provincial organization, affiliate branches and/or some form of local and/or regional bodies that share a mission, brand and program model and have some legal independence from one another." Available at: <http://theonn.ca/wp-content/uploads/2012/05/Federations-Framework-for-Success-for-Nonprofit-Federations-November-2009.pdf>

³³ Chait, R., Ryan, W. and Taylor, B. (2005).

Non-profit organizations operate in an increasingly complex environment. Many boards are struggling to adjust to the changing environment and face capacity and recruitment challenges.

3 TRENDS IMPACTING GOVERNANCE

Expectations of deeper, meaningful engagement changing the way organizations are governed

Informants expressed concern about the lack of diversity and constituent representation on boards, recognizing there is also the risk of tokenism. Organizations are reflecting on the nature of meaningful engagement and the implications for their governance structure.

“We’ve just added a young person and a representative from our constituents to our board, but they are intimidated by the lawyer, the executive banker or accountant. They don’t feel fully integrated into the work of the board.”

FOCUS GROUP PARTICIPANT

As organizations change how they engage with partners, stakeholders and beneficiaries, their governance models must adapt to follow suit. Many organizations are exploring new ways to use input derived from the populations that they serve to develop strategic plans, organizational policies and evaluation frameworks. Consequently, governance bodies often must adjust to less hierarchical models of decision-making and increase their openness and transparency.

A focus on systems change demands that governance be shared across organizations

As the language of “systems change” becomes increasingly prominent in the sector, organizations are expected to situate

their mission and activities within a broader community effort. Many organizations are grappling with understanding outcomes and impact from a systems lens in which their contributions are part of a broader collective effort to make a difference for a particular social or environmental issue.³⁴

Governments and funders increasingly place the onus on individual organizations to show leadership by establishing meaningful partnerships, submitting collaborative funding applications and orienting their impact measurement activities towards a more collective approach.

34 Lalande, L. and Cave, J. (2017). *Measuring Outcomes in Practice: Fostering an Enabling Environment for Measurement in Canada*. Toronto: Mowat NFP. Available at: https://mowatcentre.ca/wp-content/uploads/publications/157_EE_measuring_outcomes_in_practice.pdf.

Committing to a systems-change approach is less about process and outcomes and more about culture.³⁵ Organizations and their boards are expected to transition quickly to a working culture that favours collaboration, openness, transparency and sharing. It may also require that governance decision-making is shared across organizations in the collaboration.

This can prove to be challenging, especially when it contradicts some of an organization's established policies and procedures for risk management, organizational performance, fundraising or information sharing. Focus group participants raised concerns over fear of "losing out" (i.e. loss of funding and resources), particularly in rural communities where resources are increasingly scarce.

Emerging technologies challenging traditional notions of governance

New and emerging technologies like artificial intelligence and data analytics are making it increasingly possible for governments, businesses and non-profits to customize services to individuals. This could have significant implications on collective efforts to solve complex social problems and improve the lives of individuals, with new types of cross-sector collaborations likely to emerge.³⁶

Non-profits will need to grapple with their role in these collaborative efforts, including giving up some level of control or determining how to continue to effectively engage and represent their constituents. Notably, this could also disrupt the non-profit sector as new digital technologies replace the need for some traditional non-profit

35 Mulgan, G. (2016). *Collaboration and collective impact: how can funders, NGOs and governments achieve more together?*. Available at: <https://www.nesta.org.uk/blog/collaboration-and-collective-impact>.

36 Policy Horizons Canada (forthcoming). *The Next Generation of Emerging Global Challenges*.

(place-based) organizational structures. As technology continues to advance, non-profits will need to deal with the implications of this shift on their organizations, their stakeholders, their cultures and their governance models.

Increased organizational consolidation requires new and specialized skill sets

Over time, resource scarcity has prompted many organizations to explore opportunities to merge or consolidate their operations with other similar partner organizations. This consolidation can take different forms: joining a network organization, creating umbrella groups or coalitions, sharing premises or facilities, providing joint training or programming, or formally integrating organizations into a single incorporated entity.³⁷ Shared platforms are one example of "consolidation" that reduces the funding needed to support organizational infrastructure by creating economies of scale.³⁸

Increasing organizational consolidation creates unique challenges for governance. How do boards approach these opportunities and work effectively with other partners in a collaborative environment? Non-profit and charitable organizations often lack the skills or expertise to evaluate potential mergers. In a Canadian survey of non-profit organizations, only 53 per cent of surveyed respondents reported that their board had the skill set necessary

37 Blumberg, M. (2009). *Mergers and Amalgamations in the Canadian Non-profit and Charitable Sector*. *The Philanthropist*, 22(1): 1-20. Available at: <https://www.canadiancharitylaw.ca/blog/mergers-and-amalgamations-within-the-canadian-non-profit-and-charity-sector>.

38 McIsaac, E. and Carrie, M. (2013). *A Platform For Change*. Toronto: Mowat NFP. Available at: https://mowatcentre.ca/wp-content/uploads/publications/71_a_platform_for_change.pdf.

to evaluate a potential merger.³⁹ Informants also indicated that many executive directors, particularly in rural areas, are reluctant to pursue consolidations like mergers given a fear of job loss. Some indicated a similar reluctance of board members due to concerns of losing their influence and standing in their community.

Data transforming organizations and their governance practices

While small, digital-first non-profits are emerging, many non-profit and charitable organizations have a limited understanding of the potential and limitations of data. Data literacy and a lack of technical skill sets at board and staff levels limit internal capacity to engage with data-related issues in a strategic way, particularly in collaborative models and systems-change initiatives. Boards have an important role in improving the organization's "data maturity" so that it can track outcomes and impact effectively and build internal capacity for data use.⁴⁰

Organizations with advanced data practices are more effective in driving performance towards their mission and increasing internal efficiency.⁴¹ However, the increasing professionalization of the non-profit staff workforce raises questions about how boards should be expected to engage with

data and emerging technologies. There are also significant privacy considerations for organizations that participate in data-sharing initiatives with other partners, requiring a high degree of sophistication at the governance level.

Governance becoming increasingly focused on revenue generation

The sector is experiencing a significant transformation in the funding environment. Charitable giving is decreasing across all age categories and charities are relying on a decreasing pool of aging, wealthy individuals to support their missions.⁴² Funders have moved from a core funding model to an increasingly targeted, project-based approach.⁴³ The reluctance to fund organizational administrative costs contributes to increased precarity, as organizations often rely on a patchwork of project-based grant funding to sustain their work.

At the same time, Canada's changing demographics – an aging population, increased rural-to-urban migration of Indigenous communities, rising income inequality and a record number of immigrants and refugees⁴⁴ – are adding pressures to non-profit organizations and increasing demand for their programs and services.⁴⁵ These factors are creating a sustainability challenge and a competitive environment for many non-profits.

39 Bugg, G. and Dalhoff, S. (2006). *National Study of Board Governance Practices in the Non-Profit and Voluntary Sector in Canada*. Strategic Leverage Partners Inc. Available at: http://www.strategicleveragepartners.com/bhg768kimhgvxxyxzwq/National_Study_of_Board_Governance_Practices_in_the_Non-Profit_and_Voluntary_Sector_in_Canada.PDF.

40 Cave, J., Gyateng, T., Lalande, L. and Lumley, T. (2018). *Collaborating for Greater Impact: Building an Integrated Data Ecosystem*. Toronto: Mowat NFP. Available at: https://mowatcentre.ca/wp-content/uploads/publications/161_EE_collaborating_for_greater_impact.pdf.

41 IBM Institute for Business Value (2017). *Leap before you lag: non-profits with deeper data capabilities see stronger impact, transparency and decisions*. Available at: <https://www-935.ibm.com/services/us/qbs/thoughtleadership/analyticsleap/>.

42 Lasby, D. and Barr, C. (2018). *30 Years of Giving in Canada - The Giving Behaviour of Canadians: Who gives, how, and why?* Imagine Canada. Available at: <http://www.imaginecanada.ca/30years>.

43 Scott, K. (2003). *Funding Matters: The Impact of Canada's New Funding Regime on Non-profit and Voluntary Organizations*. Canadian Council on Social Development. Available at: <http://www.ccsd.ca/index.php/research/funding-matters>.

44 Granofsky, T., Corak, M., Johal, S., and Zon, N. (2015). *Renewing Canada's Social Architecture Framing Paper*. Toronto: Mowat Centre. Available at: <https://mowatcentre.ca/renewing-canadas-social-architecture/>.

45 Emmett, B. (2016). *Charities, Sustainable Funding and Smart Growth*. Toronto: Imagine Canada. Available at: http://www.imaginecanada.ca/sites/default/files/imaginecanada_charities_sustainability_smart_growth_2016_10_18.pdf.

Boards are often required to navigate this changing environment by streamlining the organization's activities, diversifying funding sources and exploring new funding opportunities such as social enterprise.⁴⁶ Informants indicated that many boards are also expected to be "fundraisers." While it is becoming increasingly more common, fund development (e.g. direct donor solicitation, planning fundraising events) is not actually a core governance function and may detract from other governance-related issues. Many organizations are struggling with this dilemma and the time pressures that result.⁴⁷

Increased focus on accountability, performance and outcomes measurement changing governance functions

Non-profit and charitable organizations are expected by funders, donors and the public to report on performance and outcomes measurement with increasing sophistication. While measuring the effectiveness of the board is distinct from measuring the effectiveness of the organization, the success of both is interconnected.⁴⁸ Boards are not only responsible for providing oversight of the organization's performance and outcomes measurement activities: their effectiveness as a governance body has a "trickle-down" effect on how successfully the organization fulfils its mission. Unfortunately, measurement is a largely under-resourced and under-developed area.⁴⁹

Governments have also increased their involvement in non-profit service delivery. As a result, boards sometimes report losing control of their organization's mission as they pursue various government-based funding sources.⁵⁰ Informants indicated that while many funders are shifting to report on outcomes, many organizations are still required to complete onerous, detailed accountability reports which can push boards to become more operationally-focused.

Rise of outcome funding arrangements and impact investing requiring specialized expertise and different mindsets

Given tight budgets, governments are under significant pressure to ensure resources are allocated effectively and to areas where that will have the greatest impact. As a result, they are increasingly interested in paying for services through outcomes funding arrangements such as pay for performance contracting⁵¹ and social impact bonds.⁵² This requires a level of financial literacy and sophistication in outcomes measurement that many boards and executive directors lack. Impact investing requires boards and senior management staff to work with market-oriented actors seeking blended returns (profit and purpose), and this can present some cultural and philosophical challenges for boards who have never operated in this area before.⁵³

46 Emmet, B. (2016).

47 BoardSource (2017). *Leading with Intent: 2017 National Index of Nonprofit Board Practices*. Available at: <https://leadingwithintent.org/>.

48 Bugg, G. and Dalhoff, S. (2006).

49 Lalande, L. and Cave, J. (2017). *Measuring Outcomes in Practice: Fostering an Enabling Environment for Measurement in Canada*. Toronto: Mowat NFP.

50 McClusky, J. (2002). *Re-thinking non-profit organization governance: implications for management and leadership*.

International Journal of Public Administration, 25(4): 539-559.

51 A contract that conditions core funding provided to non-profits on outcomes achieved.

52 A contract where private investors are paid dividends based on pre-determined outcomes.

53 Lalande, L., Cave, J., and Sankat, R. (2016). *Unpacking Impact: Exploring Impact Measurement for Social Enterprises in Ontario*.

Mowat NFP. Available at: https://mowatcentre.ca/wp-content/uploads/publications/130_unpacking_impact.pdf.

“There is a lot of pressure on the Executive Director to bring new opportunities to the board, such as opportunities to access social finance. However, the board does not often have the knowledge or expertise in these areas and struggles to make timely decisions. In a nimble organization with a volunteer board, how do you get the right expertise?”

ADAM JAGELEWSKI
MaRS Centre for Impact Investing

Generational change transforming organizations and their boards

Non-profit organizations need to grapple with generational change and how it is shifting attitudes about work, volunteering and “doing good.”⁵⁴ Canada’s volunteer workforce is increasingly comprised of older individuals⁵⁵ who will soon retire. There is pressure on organizations to recruit, retain and train younger volunteers and board members to transition into those roles.

Volunteering is becoming more short-term, individualized and skills-based. Volunteers often have their own goals, which may or may not be aligned with what non-profit organizations need.⁵⁶ This is complicated by the fact that many organizations lack the strategies, tools and training to work with a variety of volunteers using a skills-based approach.⁵⁷

54 Mollenhauer, L. (2017). *Trends and Forces Shaping Non-profit Organizations: Actions and Strategic Questions for Non-profit Leaders*. Available at: http://ignitenps.com/wp-content/uploads/2017/10/IGN_PHIL_TrendsForces_1010.pdf.

55 Turcotte, M. (2016). *Volunteering and charitable giving in Canada*. Statistics Canada. Available at: <http://www.statcan.gc.ca/pub/89-652-x/89-652-x2015001-eng.htm>.

56 Turcotte, M. (2016). “Volunteering and charitable giving in Canada”. Statistics Canada. <http://www.statcan.gc.ca/pub/89-652-x/89-652-x2015001-eng.htm>.

57 Volunteer Canada (2013). *Building the Bridge for Volunteer Engagement: The Canadian voluntary sector’s perspective on the trends and issues identified in Bridging the Gap*. Available at: <https://volunteer.ca/content/building-bridge-ii-full-report>.

There is also growing interest in informal volunteering (i.e. not working through an existing non-profit or charity - for example, advocating for issues through a social media platform). These trends pose a challenge for many organizations that rely on ongoing volunteer contributions at the board and staff levels.⁵⁸ An organization’s reliance on volunteers to deliver their missions – through either management or governance positions – presumes loyalty and long-term commitment. How will organizations attract a consistent and sustainable base of leadership and governance volunteers to do their work?

Growing complexity requires new competencies

“In the face of an increasingly disruptive and uncertain environment for nonprofits, leadership competency will be the factor that will distinguish those organizations that fail or succeed, struggle or thrive.”⁵⁹

These trends reveal a changing environment that requires non-profit board members to deal with significant diversity and complexity and work across sectors and systems.

58 Volunteer Canada (2013).

59 Clutterbuck, P. and Arundel, C. (2017). *Leading our Future: Leadership Competencies in Ontario’s Non-Profit Sector*. Ontario Nonprofit Network. Available at: http://theonn.ca/wp-content/uploads/2017/07/ONN.Report.Leadng-our-Future.FINAL_.pdf.

To navigate this environment, board members need to be data experts, strategists, sense-makers and innovators. They must also be financially literate (including in emerging areas, such as social finance and earned income) and willing to take calculated risks, while being inclusive, resilient, trustworthy and self-aware.^{60 61} Many boards are struggling to adjust to the changing environment and face capacity and recruitment challenges in the delivery and achievement of their organization's mission and objectives.

These emerging trends and challenges raise structural and philosophical questions for non-profit governance and point to the need for change.

FIGURE 5

Emerging Competency Requirements



60 Clutterbuck, P. and Arundel, C. (2017). *Leading our Future: Leadership Competencies in Ontario's Non-Profit Sector*. Ontario Nonprofit Network.

61 Stauch, J. and Cornelisse, D. *Canada Next: Learning for Youth Leadership Innovation*. Institute for Community Prosperity, Mount Royal University. Available at: https://www-prep.mtroyal.ca/cs/groups/public/documents/pdf/icp_canadanext_full.pdf.



“The more we can create structures where regular people can plug in, connect to each other, and stand up for what matters, the more possible it will be to transform the deepest injustices in our society.”

NICOLE CARTY
SumOfUs

4 PROMISING PRACTICES

While many respondents indicated a need for new, transformative approaches to non-profit organizational governance, some struggled to articulate what these approaches might look like in practice. Notably, very few examples of transformative or adaptive approaches surfaced in the research.

There is, however, much to learn from collaborative approaches such as networks, collective impact and coalition building. These approaches could allow non-profit organizations to fundamentally reshape governance processes and practices by considering what aspects of governance work can or should be done by a wider group of citizens beyond the board.⁶²

The following promising practices are not on their own transformative, but they are intended to spark discussion and debate and provide potential directions for changing non-profit governance in the future.

62. This could include staff, funders, leadership volunteers, beneficiaries or members.

Rise Asset Development

Incorporating a social impact measurement approach into Rise Asset Development's reporting framework shifted the organization's governance focus from traditional outcome metrics to the broader impact the organization's core programming has on clients and their communities. Measurement tools, such as a Social Impact Scorecard, have been instrumental in facilitating this shift. Social impact measurement can also foster deeper organizational insight into opportunities for continuous improvement and scale. As described by Beth Dea, COO, Rise Asset Development: "We collect data for ourselves, not just our funders, through the lens of continuous improvement of the services we provide. This helps to tell the collective story of our clients that goes beyond employment to include the impact that individual success has on the sector at large." This shift in governance focus was facilitated through intermediary support from LIFT Philanthropy Partners, and its pro bono partner MNP LLP.⁶³

⁶³ Rise Asset Development partnered with LIFT Philanthropy Partners, a venture philanthropy organization, to support their capacity building and scaling efforts. LIFT works with pro bono partners, such as MNP LLP, to strengthen measurement practices to support organizational learning and the achievement of outcomes.

Orienting governance towards organizational learning and impact

The non-profit sector requires flexible and adaptive governance approaches to overcome the series of challenges it faces. A strict focus on compliance and risk management alone is insufficient and limits the ability of organizations to change and innovate. There is growing emphasis on measurement for non-profit organizations- focusing on impact and learning - as a means for effectively navigating the complex operating environment.

Using data to track and report on outcomes can enable organizations to better understand how they are meeting beneficiaries' needs and where improvement in services and programs can be made to enhance overall organizational performance. Embedding measurement in an organization can also help attract and validate the organization's work to different types of funders interested in supporting social outcomes (such as private investors, where appropriate).

This approach requires non-profit leaders who know how to authentically engage with beneficiaries and stakeholders in the co-creation of outcome indicators, have the skills to measure and evaluate social impact and have the financial competencies to effectively link strategy to operations in order to learn, grow, achieve outcomes and sustain revenue.

Separating fundraising from the board

Exceptional boards are recognized in the sector for their role in raising funds. It is seen as a central obligation in governing, but many boards struggle with it.^{64 65} Given the funding challenges many organizations are facing, is it still realistic to expect boards to be responsible for both governance and fundraising?

Moving the development of fundraising strategy and fundraising outside of board control could reduce the demand and burden on boards, attract individuals who otherwise do not have time for full board commitment and establish a clearer distinction between funder-led and community-led program design.

One way this is being done is through the creation of funding committees or councils. Notably, while these types of councils or committees can be effective, respondents indicated that, when not working well, they can also demand more time from staff in order to bring members up to speed on fundraising trends, provide training or create customized collaborative fundraising tools and tracking files. Also, examples like the Council are one of many approaches required in a diversified fund development plan. While there is no “magic bullet,” it may be worth exploring the potential for fundraising approaches that do not rely so heavily on boards.

64 BoardSource. (2017). *Leading with Intent – 2017 National Index of Non-Profit Board Board Practices*. Available at: <https://leadingwithintent.org/>.

65 Larcker, D. Donatiello, N., Meehan, B., and Tayan, B. (2015). *2015 Survey on Board of Directors of Nonprofit Organizations*. Graduate School of Stanford Business, The Rock Center for Corporate Governance, BoardSource, and GuideStar.

Habitat for Humanity Canada National Leadership Council

In 2011, Habitat for Humanity Canada created a National Leadership Council that consisted of influential Canadians with a shared passion to end poverty and support affordable home ownership. Being on the Council required members to support advocacy and fundraising efforts only. They did not take on any decision-making role in the organization and, as such, did not have the responsibility or liability that comes with board membership. Members co-created engagement activities that were meaningful to them and their contacts and created personalized development plans unique to their situation and how much time they had to help. By narrowing and focusing their role, members were free to engage when and how they wanted to in activities that mattered to them. The Council (with staff) created and implemented the strategy and the Habitat board of directors focused on governance. In just under two years, the Council launched a campaign to raise awareness on the need for a national platform on affordable housing. Their combined advocacy and fundraising efforts led to record-breaking revenue growth for the association.⁶⁶

66 Habitat for Humanity Canada. (2012). *Annual Report / 2011*. Available at: <https://www.habitat.ca/files/2011-Annual-Report.pdf>.

The Winnipeg Boldness Project

The Winnipeg Boldness Project is a social lab in the Point Douglas neighbourhood of Winnipeg that aims to improve early childhood development outcomes. The project operates using a community governance model where accountability, idea generation and implementation are led by the community. Having a board as a single governance entity was perceived as a barrier to meaningful community engagement. As such, this model does not have a traditional board structure; rather, there is a Stewardship Group responsible for strategic and financial oversight with United Way Winnipeg holding legal responsibility for the project. The work of the Stewardship Group is informed by a funders group and by four Guide Groups comprised of community members and experts that organize the most promising ideas and identify further research opportunities.⁶⁷ One of the greatest strengths of this approach is that there is no reliance on a single committee for decision-making and many members sit on more than one group.

67 The Winnipeg Boldness Project. (2018). *The Winnipeg Boldness Project – Strengthening a Foundation for Success and Wellbeing: Reflecting Back in Order to Journey Forward*. Available at: http://www.winnipegboldness.ca/wcm-docs/docs/wpgboldnessproject_2yrreview_finalweb.pdf.

People-centred models of governance

There is growing interest from organizations and their boards to meaningfully engage beneficiaries so that strategies, policies and programs better reflect the needs of the communities and individuals they serve. Organizations like DiverseCity onBoard and UpRising are championing diversity as a means of meaningful engagement, working to place qualified individuals from under-represented groups in leadership and governance roles.^{68 69} While the push for greater diversity on boards is important, there is still the question of whether meaningful engagement can be achieved through board structures alone.

The Winnipeg Boldness Project - an innovative approach that is already having a positive impact - has identified new ways of incorporating the needs and views of community members into their governance, strategy planning and evaluation. While it could be described as a participatory model of governance, at the heart of it is a philosophical and cultural shift from asking what should boards do to exploring what governance functions are needed and letting stakeholders lead this process.

“We are always challenged to think outside the box, but what we need to do more of is think inside a circle. Centering Indigenous practices, wisdom, ways of thinking and acting in the world. You then bring people into the circle - identifying who can inform approaches. I think the whole world knows about thinking outside the box, but it’s really about working collaboratively with the community as a whole to identify solutions within the circle.”

DIANE ROUSSIN
Project Director, Winnipeg Boldness Project

68 DiverseCity onBoard. (n.d.). *About DiverseCity onBoard*. Available at: <http://diversecityonboard.ca/about/>.

69 UpRising. (n.d.). *About Us*. Available at: <https://uprising.org.uk/about-us>.

Technological advances and their potential for governance transformation

“The challenge is not to create settings where people can share and communicate, but also the means for knowledge to be made public, to be assembled, sedimented, and reflected upon.”⁷⁰

Emerging technologies are creating opportunities for non-profit organizations to achieve greater impact by collaborating with wider audiences. These technologies, such as *Liquid Feedback* and *DemocracyOS*, can connect large numbers of people to share ideas and engage in public discourse about important social policy issues. Although the capacity of large groups to reason effectively has traditionally been cast with suspicion due to perceived inefficiencies, numerous studies indicate that decision-making is enhanced when individuals pool together skills, knowledge and other resources to solve problems. Using technology, non-profit organizations can develop participatory models of governance that offer more meaningful and direct engagement with their beneficiaries and stakeholders.⁷¹

70 Broadbent, S. (2015). *Collective Intelligence: How does it emerge?* Nesta. Available at: <https://www.nesta.org.uk/report/collective-intelligence-how-does-it-emerge/>.

71 Broadbent, S. & Mercier, H. (2015). *To make better decisions find people to argue with.* Nesta. Available at: <https://www.nesta.org.uk/blog/to-make-better-decisions-find-people-to-argue-with/>.

Ecology Ottawa

Ecology Ottawa is a non-profit volunteer-driven organization that connects people who are passionate about protecting the environment through canvassing, phone campaigns, online activities and events. They engage interested citizens on specific local issues they care about by joining or leading campaigns, and the teams are structured and re-invented based on the context. A steering committee meets regularly and focuses on day-to-day operations, while the board has three members only (from the steering committee) and focuses on fiduciary duties. All issues go through the steering committee first. The organization also convenes team leaders and key contributors one to two times per year to debrief and discuss strategy. While the engagement organizing model has challenged the organization, it has proven effective at driving results. It allows voters to work directly on issues that matter to them with policymakers, such as moving the city's climate action plan forward.^{72,73}

Engagement organizing and distributed leadership

“This shift to an organizing culture is a big one since it asks us to stop being the experts and acting on others’ behalf and instead to start focusing on stepping into the background and encouraging others to act for themselves.”⁷⁴

Engagement organizing “combines community organizing practices, digital tools, data, and networked communications to engage people at scale and win campaigns.” It involves aligning and mobilizing people around an issue or shared theory of change, and distributing leadership to achieve success. In engagement organizing, power is shared rather than centering it solely with a board or management team. New digital technologies have facilitated the rise of engagement organizing by enabling organizations and individuals to work with and rally people on issues they care about more than ever before. A growing number of smaller, digital-first non-profits are emerging and will likely challenge more established non-profits competing for attention, volunteer leadership and support.⁷⁵

72 Price, M. (2017). *Engagement Organizing*. On Point Press, The University of British Columbia.

73 Ecology Ottawa (n.d.). *About*. Available at: <https://ecologyottawa.ca/about/>.

74 Price, M. (2017). *Engagement Organizing*. On Point Press, The University of British Columbia.

75 Price, M. (2017). *Engagement Organizing*. On Point Press, The University of British Columbia.

Funding that supports capacity building, training and new approaches in governance

Funders play an important role in supporting and strengthening governance in the sector. Informants indicated that some funders tie grant contracts to specific governance requirements that are based on existing governance models. But by doing so, funders could be advancing a narrow conception of governance that prevents organizations from innovating. Funding earmarked for capacity building, training and experimentation with governance could assist in addressing this challenge.

An Example of Municipal Government Leadership in Governance Training and Capacity Building

In 2019, the City of Toronto will be offering Capacity Building Grants to strengthen non-profit organizational governance and resiliency through funding skills training activities.⁷⁶ To inform the delivery of these grants, capacity building pilot projects have been proposed.⁷⁷ These pilot projects aim to achieve a variety of promising objectives, such as improving representativeness on boards, strengthening trusteeship practices, measuring outcomes of networks and strengthening resident engagement on Neighbourhood Planning Tables.⁷⁸ As a result, the Capacity Building Grants intends to support governance that helps non-profit organizations adapt to changing community sector needs, foster diversity and coordinate for impact.⁷⁹

76 City of Toronto. (2017). *Community Investment Funding Programs – Review and Recommended Framework*. Report for Action. Available at: <https://www.toronto.ca/legdocs/mmis/2017/cd/bgird/backgroundfile-101395.pdf>.

77 In April 2018, the Executive Director of Social Development, Finance and Administration recommended that City Council approve seven capacity building pilot project grants for a total of \$1,075,000 in funding.

78 City of Toronto. (2018). *2018 Allocations Recommendations for Community Investment Fund and Community Service Partnerships Fund*. Report for Action. Available at: <https://www.toronto.ca/legdocs/mmis/2018/cd/bgird/backgroundfile-114557.pdf>.

79 City of Toronto (2018). Available at: <https://www.toronto.ca/legdocs/mmis/2018/cd/bgird/backgroundfile-114557.pdf>.

Finding alignment on principles of effective governance may be a challenge. Focusing on actions may yield greater results over the long-term.

5 KEY CONSIDERATIONS

As the sector explores new organizational governance approaches, the following should be kept in mind:

Philosophical differences may also be influencing governance practices

The research pointed to two social organizing practices in the sector that may be seen by sector leaders as being in opposition to each other: social innovation and social justice. Social justice practice prioritizes equity and inclusion. Social innovation practice concentrates foremost on creating solutions to social problems – prioritizing experimentation and new interventions; in this pursuit, social innovators may be less concerned with issues of equity, power dynamics and privilege.^{80 81} A board's philosophical view (social justice or social innovation) may influence the governance functions, practices and processes they adopt. These two competing narratives could be underlying some of the organizational governance challenges experienced in the sector. Rather than see them as points of tension, there are opportunities to borrow from the strengths of each practice to improve organizational governance in the sector. For example, a governance approach that creates a fertile ground for new social inventions and is grounded in meaningful engagement with those with lived experience.

Governance may be influenced by board members' understanding of impact

How an organization chooses to govern will be influenced by the social context they operate in and how board members interpret achieving "impact." In addition to fulfilling their basic legal obligations in the practice of governing, boards may have fundamentally different perspectives on what constitutes effective mission delivery and organizational management. This can also change with new board members, as they often bring new cultural and agenda changes with them.

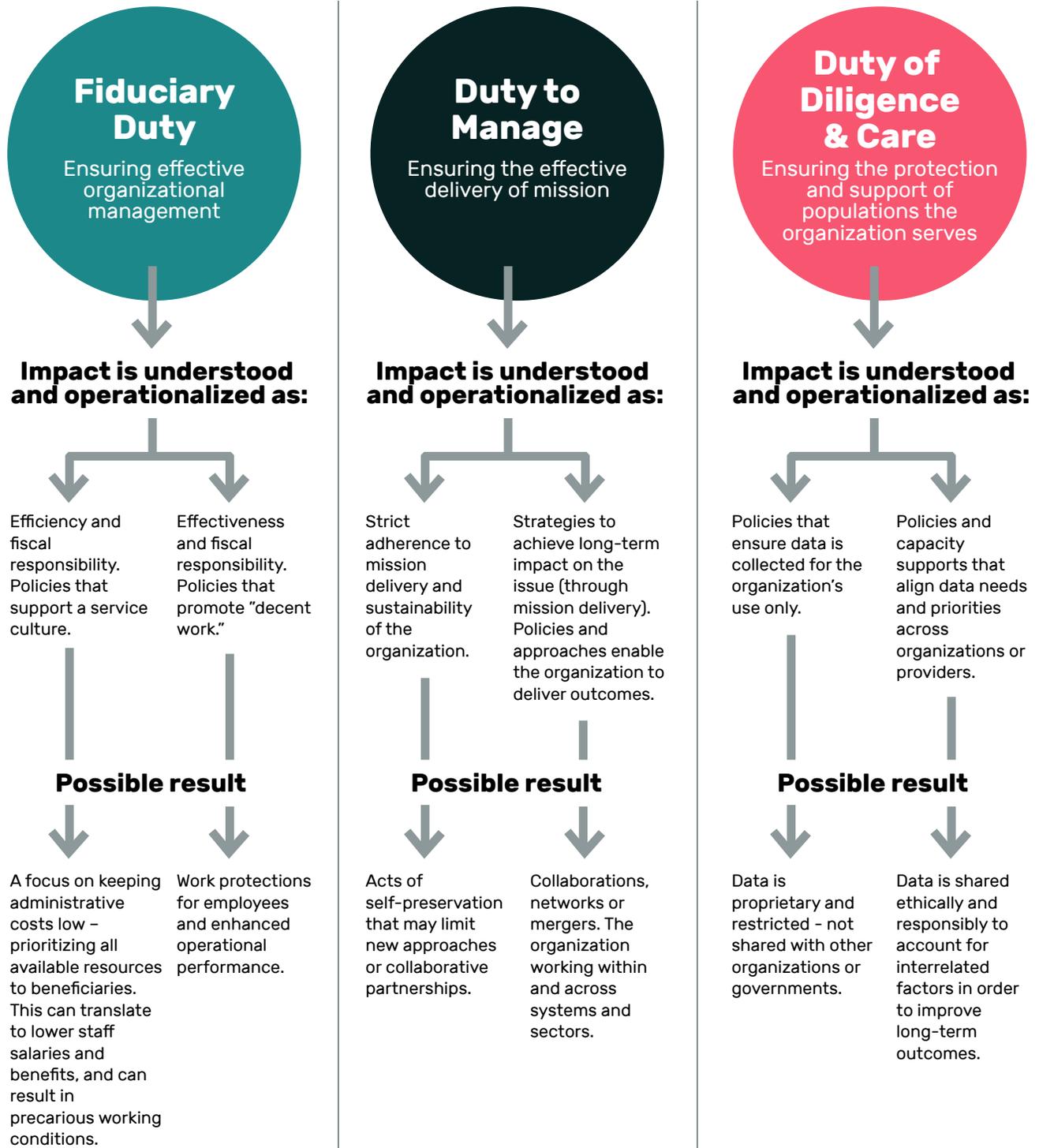
Notably, a board's definition of what achieving impact means may be at odds with what staff, volunteers and funders believe or expect (see Figure 6). A shift in a board's concept of impact can lead to significant changes in governance approaches, practices and organizational outcomes.

80 Struthers, M. (2018). *At Odds or an Opportunity? Exploring the Tension between the Social Justice and Social Innovation Narratives*. The Philanthropist. Available at: <https://thephilanthropist.ca/2018/03/at-odds-or-an-opportunity-exploring-the-tension-between-the-social-justice-and-social-innovation-narratives/>.

81 Fraser, T. and Glass, J. (2018). *The Promise of Bridging*. Community Knowledge Exchange (CKX). Available at: <http://ckx.org/2018/04/the-promise-of-bridging/>.

FIGURE 6

Possible Governance Pathways



Future-oriented governance will need to account for cultural considerations

Respondents shared that decision-making practices can sometimes favour dominant cultural norms. For example, the current legal requirements for charities and non-profit organizations require that boards are elected through a voting process and designate an organizational leader. This selection-by-election approach can undermine consensus-style decision-making in traditional systems of Indigenous governance. Rather than operating under the will of a majority, consensus style decision-making involves listening to the views of the community and working towards solutions that are in the best interests of the collective.⁸²

Future-oriented governance in the sector will need to recognize and address cultural barriers that are inherent in current governance practices, and this should include exploring how governance can be more inclusive of cultural norms and practices.

82 Indigenous Corporate Training Inc. (2017). *What does traditional consensus decision making mean?* Available at: <https://www.ictinc.ca/blog/what-does-traditional-consensus-decision-making-mean>.

Volunteer boards of directors share the same liabilities as compensated directors in the for-profit sector

Managing liability is an important consideration for both non-profit and for-profit boards, but may require a slightly different approach to ensure volunteer board members are appropriately supported given the potential risks of their role.

As volunteers, board members of non-profits have the same liabilities as compensated boards in for-profit organizations.⁸³ Saskatchewan is the only provincial jurisdiction in Canada that protects non-profit boards from litigation. While many organizations obtain directors & officers (D&O) liability insurance, it is not required as part of the incorporation process. The insurance is also not entirely comprehensive.^{84 85}

Liability becomes increasingly complex when exploring participatory governance models, where accountability may be decentralized among numerous entities within an organization. Shared leadership does not, under current regulation, transfer or eliminate the liability of sitting board members. As the landscape continues to change and more is demanded of non-profit boards, key questions are emerging. Can volunteers realistically be expected to manage the growing level of complexity? Should they be expected to be held personally liable in certain circumstances? These are important considerations to reflect upon.

83 Deloitte LLP. (2013). *The Effective Not-for-Profit Board | A value-driving force reality*. Available at: <https://www2.deloitte.com/content/dam/Deloitte/ca/Documents/public-sector/ca-en-public-sector-effective-npo-board.pdf>.

84 Boards may still be held liable for failing to remit taxes, GST, CPP, or unemployment insurance.

85 Hartley, D. (2009). *Insurance Coverage Non-profits and Charities Need to Understand*. Available at: http://sectorsource.ca/sites/default/files/resources/files/non-profit_insurance_coverage_20090403.pdf.

It may be worthwhile to explore remuneration

Board remuneration is no doubt a polarizing topic given philosophical differences, concerns over transparency, conflicts of interest and scarce financial resources. Involvement on a board is generally regarded as a way to give back, but is this approach sufficient given increasing demands, recruitment challenges and limited resources?

Offering a payment for board membership could increase the pool of available candidates, help attract individuals that are both highly qualified and passionate for the cause. As paid members, organizations and their constituents could expect more in terms of qualifications, performance, attendance and communications. On the other hand, it could also be seen as an unnecessary expense and could negatively impact public perception and donations.

While this may be a contentious topic, it may be worthwhile to explore the potential for, and implications of board remuneration in the non-profit sector.⁸⁶

As a result, a principles-first approach may be challenging

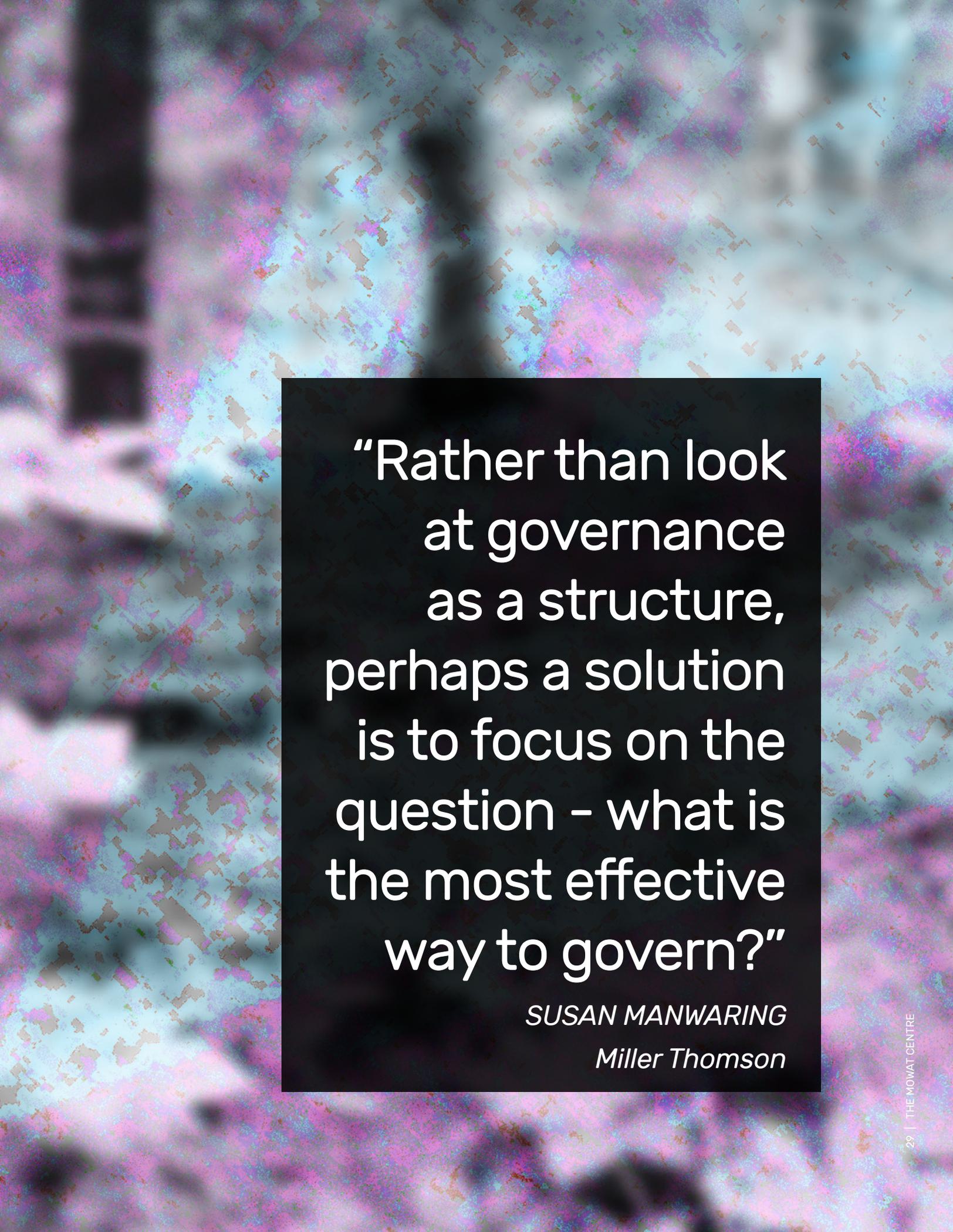
All of these considerations mean that reimagining organizational governance in the sector will require a collaborative effort from a variety of actors. Given the diversity of perspectives, values and philosophies, finding alignment on principles of effective governance as a starting point for change may be a challenge. Focusing on actions, such as prototyping solutions or testing new functions or practices, may yield greater results over the long-term. These efforts can inform principles of effective organizational governance for the future.⁸⁷

“Organizers of collaboration often want the participants to get back to first principles, and then move logically onto actions. A great deal of experience, and political science, shows that this approach is mistaken. It is much harder to get a disparate group to agree on underlying principles and values than it is to get them to agree on actions.”⁸⁸

86 Ontario directors of non-profit corporations that are not charities can receive remuneration for any services they perform, but it must be reasonable and specific requirements must be met. Notably, there are different rules for charitable corporations. Directors of charitable corporations can not be paid for their services as a director, however, this can be overridden by court order or statutory requirements. For example, the [Public Hospitals Act](https://www.ontario.ca/page/guide-not-profit-corporations-act-2010#section-4) requires the CEO to be on the board. For more information, please visit: <https://www.ontario.ca/page/guide-not-profit-corporations-act-2010#section-4>. The rules regarding remuneration are complex and often require specialized expertise to navigate.

87 Mulgan, G. (2016). *Collaboration and collective impact: how can funders, NGOs and governments achieve more together?* Nesta. Available at: <https://www.nesta.org.uk/blog/collaboration-and-collective-impact>.

88 Mulgan, G. (2016). *Collaboration and collective impact: how can funders, NGOs and governments achieve more together?* Nesta.



“Rather than look
at governance
as a structure,
perhaps a solution
is to focus on the
question - what is
the most effective
way to govern?”

SUSAN MANWARING

Miller Thomson

6 RECOMMENDATIONS

To date, boards of non-profit organizations have assumed the primary role in governance, but this approach is based on custom rather than statutory obligation. The context that the sector operates in has changed significantly in the last few decades. A strict focus on boards as the central governance structure may be limiting opportunities for transformation in the sector. New, adaptive approaches to governance are needed to ensure better responsiveness to social issues, system-wide impact and adaptability to the changing environment.

A new definition of governance is emerging that sees governance as a shared leadership function that extends beyond the board. Rather than focusing on risk and compliance, governance is centred on impact and learning, where innovation is prioritized and balanced against risk.

Sector leaders and funders should explore the following recommendations to assist non-profit organizations in transitioning to new governance models and approaches:

Promote and incentivize the exploration of governance approaches that are impact driven, rather than siloed and organization-specific

Few organizations will willingly explore non-traditional governance models without significant support or incentives because the transition process is particularly time- and resource-intensive.

To address this inertia, funders and sector leaders:

- » Must amplify successful models of organizational governance and collaboration
- » Can orient governance models towards missions by connecting board and organizational effectiveness evaluations more closely to organizational outcomes
- » Stipulate that governance bodies create explicit mechanisms to engage beneficiaries and stakeholders in strategic decision-making (e.g. citizen councils, youth advisory committees, dedicated seats on the board, community-driven strategic planning sessions)

Convene to reflect on governance opportunities, challenges, and solutions

Governance is complex and can be a polarizing issue. It will be important to gather sector leaders together to explore the issues and recommendations outlined in the paper in greater depth and build momentum and directions for moving forward. Exploring first and foremost what governance functions must be done rather than what boards must do could lead to innovative approaches to addressing governance challenges in the sector. The discussion questions outlined below provide a framework for moving forward with such a discussion.

Test and iterate new governance models and approaches

New governance models and approaches, such as those listed in this paper, should be explored further on a case-by-case basis before they are scaled up in the sector (e.g. using digital tools in a collaborative governance capacity, adopting mission-driven metrics for board performance). This approach would demonstrate the value of learning by doing and experimenting with new models before scaling or pursuing broader legislative, regulatory or policy reform. Other models and practices will likely emerge from this type of iterative process as well.

Emerging Critical Questions for Discussion

- » What are some assumptions underlying governance?
- » What are the sources of governance inertia in the sector and how can they be overcome?
- » What kinds of governance models are high-performing alternatives to the conventional board structure?
- » How can governance transition from an organization-specific approach to a systems-level approach?
- » What are the core organizational governance functions and where could they be positioned within an organization?
- » Will a focus on increasing board engagement, training and resources be sufficient to improve organizational governance in the sector?
- » How can governance be more inclusive of different cultural norms and practices?
- » What does meaningful engagement look like in practice and how should that inform governance approaches in the future?
- » How can funders support an environment that allows for governance innovation?
- » How can governance practices facilitate increased data sharing and collaboration?
- » How can organizations attract a consistent and sustainable base of leadership and governance volunteers?
- » How does the sector acquire people with key competencies required for the future?
- » What kind of resources, training or supports are needed to strengthen emerging governance competencies?

Promote governance through mentorship, leadership training and skills development

There is significant demand for additional resources, training and mentorship as governance roles in, and across, organizations become increasingly complex. The urgency for these supports are amplified due to generational change with retiree baby boomer board members. Future-oriented governance models can position young people strategically as “directors in training.”

Organizations that are transitioning to a more systems-oriented approach will need assistance, as the methods of collaboration and information sharing will be a significant departure from existing organization-specific approaches. This could take numerous forms, including mentorship programs, shadowing opportunities with experienced organizational leaders/directors, a support network for CEOs who are undergoing governance transitions, or directing funding to intermediary organizations for governance training and skills development.

Connect governance initiatives with upcoming policy initiatives

There are several important upcoming policy initiatives at the federal level that may intersect with governance reform. The National Social Innovation and Social Finance Strategy⁸⁹ and the Special Senate Committee on the Charitable Sector’s upcoming study⁹⁰ are both promising opportunities to reflect on, and propose solutions to, existing governance challenges.

“These recommendations demonstrate that the answer is in creating a cultural shift that embraces openness, flexibility and change. Approaching governance issues in a future-oriented way – and, where possible, reimagining governance beyond the traditional board structure – is an important part of creating an enabling environment for the non-profit sector more broadly.”

LINDA MOLLENHAUER
Ignite NPS

89 Employment Social Development Canada (2018). *Recommendations of the Social Innovation and Social Finance Strategy Co-Creation Steering Group*. Available at: <https://www.canada.ca/en/employment-social-development/programs/social-innovation-social-finance/reports/recommendations-what-we-heard.html>.

90 The mandate of the Special Committee is to examine “the impact of federal and provincial laws governing charities, non-profit organizations, foundations, and other similar groups, and to examine the impact of the voluntary sector in Canada.” Senate of Canada (2018). Special Committee: Charitable Sector (Special). Available at: <https://sencanada.ca/en/newsroom/cssb-new-senate-committee-consider-ways-bolster-charitable-sector/>.

