

Being Responsible

Third Sector Governance

**Transparency and the Obligation of Leadership
From the European and North American Perspectives**

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Contents

| | | |
|----------|---|-----------|
| 1 | Purpose and Methodology | 3 |
| 2 | Approach to Governance | 3 |
| 2.1 | Models..... | 3 |
| 2.2 | Governance and Collaboration..... | 4 |
| 2.3 | Responsibility, Trust and Accountability..... | 5 |
| 2.3.1 | Responsibility..... | 5 |
| 2.3.2 | Complexity..... | 6 |
| 2.3.3 | Trust..... | 6 |
| 2.4 | Strategic Planning..... | 6 |
| 2.5 | Performance Management..... | 7 |
| 2.6 | The Board..... | 8 |
| 2.7 | Social Enterprises and Trading..... | 9 |
| 2.8 | Leadership - Imperfection Without Delusion..... | 9 |
| 2.8.1 | Leadership vs. Management..... | 9 |
| 2.8.2 | The New Leadership Challenge..... | 10 |
| 2.8.3 | Multi-Directional Leadership..... | 10 |
| 2.8.4 | Social Entrepreneurs..... | 11 |
| 2.8.5 | The Obligation of Leadership..... | 11 |
| 2.8.6 | Application to the Third Sector..... | 11 |
| 3 | Governance in Europe | 12 |
| 3.1 | The Big Picture..... | 12 |
| 3.2 | Third Sector Governance Across Europe..... | 13 |
| 3.3 | The British and French Models of Governance..... | 14 |
| 4 | Transparency and Accountability in the European Third Sector | 14 |
| 5 | The Social Economy in France | 16 |
| 5.1 | Introduction: Features of the Social Economy..... | 16 |
| 5.2 | Specific Features of the Social Economy's Governance..... | 17 |
| 5.3 | Towards a Formal Organisation of Governance in Social Economy Organisations..... | 18 |
| 5.4 | External Challenges of the Governance Process..... | 19 |
| 5.4.1 | Pressure Resulting From European Standards: The Case of Mutual Societies..... | 19 |
| 5.5 | Pressures from Civil Society..... | 20 |
| 5.5.1 | Organisations are Called to Task in Times of Crisis: Obligation to Report 20 | |
| 5.5.2 | Trusted Gift Charter..... | 20 |
| 5.6 | Conclusion..... | 20 |
| 6 | The North American Context | 21 |
| 6.1 | An Impetus for Change in Governance Practice..... | 21 |
| 6.2 | The Movement Toward Effective Third Sector Governance..... | 22 |
| 7 | Summary | 25 |

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1 Purpose and Methodology

This paper explores governance and leadership covering a wide range of issues impacting on third sector governance including outlining different models of governance, the importance of and implications related to strategic planning, role and responsibilities of a non-profit Board with special emphasis on its relationship with its trading arm, transparency and accountability within the North American and European context, and leadership theory and practice. Issues and findings are discussed, outlining their implications¹ on research, policy, regulation and on third sector governance.

The paper draws on the practical experiences of the authors as practitioners; summary results of a series of surveys of Boards, staff and key stakeholders related to strategic and governance activities of a number of our clients; a literature review relevant to the topics discussed; the cultural context and its implications on regulation; and the results of EU conference on governance as well as referencing current issues and activities in the EU and North America.

2 Approach to Governance²

2.1 Models

Governance may be defined as the exercise of authority, direction and control of an organisation in order to enable mission achievement and accounting for results including outcomes, impact and social return on investment³.

The two most common approaches to governance are called the Administrative Model, the more traditional approach, and the Policy Model. In the Administration model, the Board makes most substantive decisions based on materials and discussions at Board meetings. Committee structures typically parallel that of management and operational functions, i.e. administration, programme, fundraising etc. The main weakness associated with this model is the absence of a clear focus on results. This lack of focus may impair the ability of the Board to 'add value' to the organisational purpose and account clearly to key stakeholders⁴.

In the Policy model the Board has an oversight role, rather than an active management role, in managing the affairs of the organisation. This model may create too much distance between the Board and organisation. There is a third model, the Carver Model, with which the Board establishes and monitors corporate policy, and staff execute the policy and oversee operations. The Board determines the ends and staff develop the means. A dynamic hybrid approach of these models is what evolves for many Boards. In one particular case, presented in a Canadian research study⁵, the Board shared with staff operational responsibility for

¹ See comments throughout the paper for research questions that should be addressed and assumptions that need further testing.

² Adapted from papers and templates prepared by JPA (www.jpa-group.com) and Aperio (www.aperio.us).

³ Gibson, M. Governing for Results, July 10th, 2006

⁴ Gill, M. Synergy Associates. Governance Models: What's Right For Your Organisation? 2001

⁵ Gill, M. Synergy Associates. Governance Models: What's Right For Your Organisation? 2001

development of public policy positions, public education and policy promotion. In matters of financial, human resource and personnel selection, however, the Board respected the ends/means distinction. In other case studies, within the same study, the Board was active in collective bargaining and personnel selection.

One emerging hybrid is the results-based governance model⁶. This approach is currently adopted by many leading edge non-profit organisations. It addresses many of the weaknesses of the other approaches through a judicious use of committees structured around Board, rather than around management responsibilities. The executive committee carries the responsibility for leading strategic planning implementation and evaluating CEO performance. A governance committee is responsible for regular review of governance policies and practices, as well as Board member recruitment, development and evaluation. Committees are used for monitoring and auditing the performance of the Board and CEO; typically they include an executive committee, a governance committee, a risk management committee and a quality assurance or programme committee. This approach differs from the more traditional models because it uses committees to do the Board's work rather than to review management activities. In this model there is also full partnership between the Board and the CEO, where neither dominates the relationship. The 'Board ends', 'management means' duality is maintained in relation to the management of finances, human resources and programme operations.

There are numerous questions flowing from this short summary of the models and these include:

- What is the most effective in performance? What are the factors which make the models more effective in performance?
- What is the most inclusive? What are the factors which make the models more inclusive?
- What is the most transparent? What are the factors which make the models more transparent?

2.2 Governance and Collaboration

Of special interest is the governance model being used for collaboration – the Constellation model⁷. It is a way 'to bring together multiple groups and sectors to work toward a joint outcome' balancing 'roles, responsibilities, vision, strategy and planning...'. It neatly overlays elements of the continuum of collaboration⁸ described by JPA Europe Limited in its research into collaboration⁹.

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

⁶ Gibson, M. Governance Models, Board Types or Best Practices? January 2nd, 2007

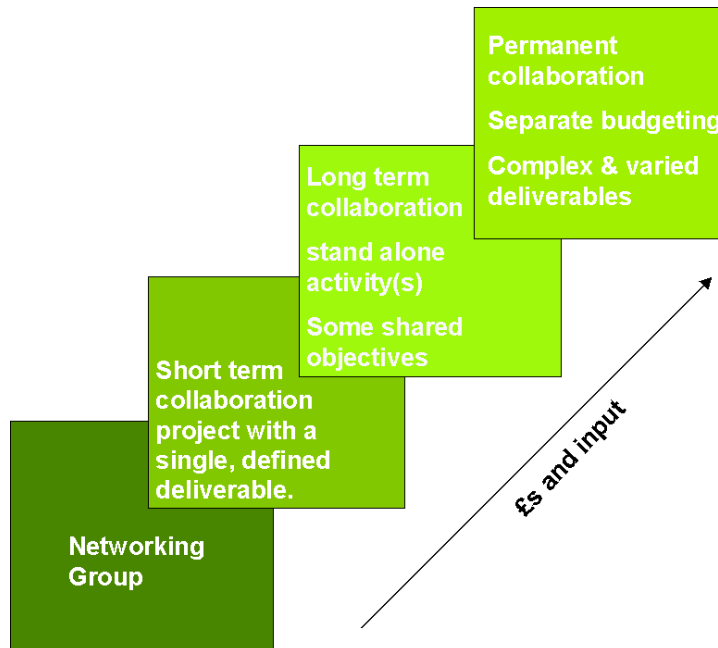
⁷ Constellation Collaboration: A model for multi-organisational partnership a Center for Social Innovation publication written by Tonya Surman

⁸ Choices Have Consequences: Collaboration – Strategic Issues, Process and Benefits prepared by JPA 2006 (www.jpa-group.com).

⁹ Sharing Without Merging, a research paper prepared by JPA (www.jpa-group.com).

Third Sector Governance: Transparency and Leadership

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



2.3 Responsibility, Trust and Accountability

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

2.3.1 Responsibility

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

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

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

2.3.2 Complexity

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

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

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

2.3.3 Trust

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

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

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

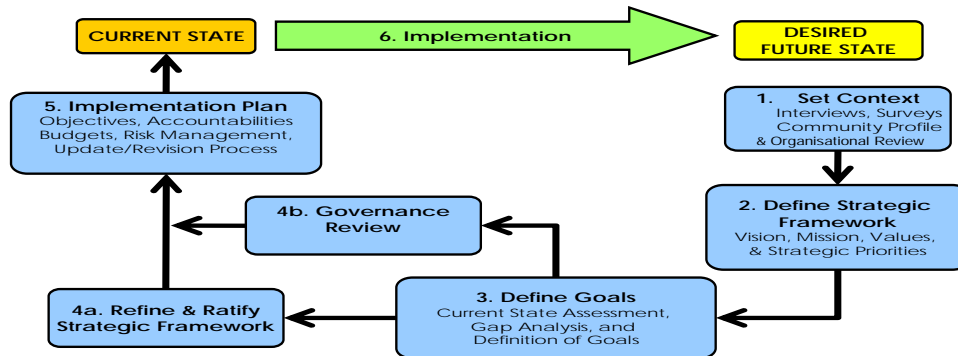
2.4 Strategic Planning

Of special importance is creating a strategic context that ensures proper governance and the achievement of a third sector organisation's vision and mission. Strategic planning is a common responsibility suggested for all non-profit Boards. While recognised as an essential element of good governance, the various strategic planning processes do not necessarily link to the development of good governance practices and structures.

There is a growing trend that suggests an intrinsic link between the process of strategic planning and the development of good governance practices - each reinforcing the other in one overarching organisational development process. This process identifies the governance competencies, principles and structures required by an organisation that will ensure the success of the strategic plan. See chart

below. Further research in this area will help to identify the links and best practice approaches.

Strategic Planning Process



2.5 Performance Management

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

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

With competition increasing for scarce resources third sector leaders must be prepared for tougher times. An entrepreneurial strategic backdrop should be put in place that allows for a more creative approach. It means that staff must be encouraged to discover innovative ways to raise funds, deliver services and liaise with stakeholders – all whilst restricting costs and improving outputs and outcomes. This would lead to a performance driven organisation, not one that is primarily cost driven, not a culture of accounting. Research in this area would help to demonstrate the efficacy of this assumption.

In such an environment performance measurement is key to improving individual and organisational impact. Central to delivering this is an effective data management system, for without it all the KPI's in the world will not help. With a desire to maximise use of resources, improve outcomes and generally run a tight ship it is absolutely vital that there is an organisation wide view of all the key indicators – all in one place and provided in a timely fashion. Today's senior manager needs information that will inform cross organisational decisions. This is essential to the success of a proper approach to governing a third sector organisation.

Third Sector Governance: Transparency and Leadership

Measuring outcomes and impact against an organisation's vision, mission, values, strategic priorities and operations plan are key to organisational success¹⁰. These measures reflect the multi-layered approach to evaluation, accountability and the exercise of responsibilities.

Questions needing further exploration include:

- What are the factors which are driving increased pressure on accountability and the need for third sector organisations to collectively protect public trust?
- How does technology increase the public's access to information about performance and impact and how should boards respond?
- Why are boards so poor at being the driving force for improving impact reporting and accountability, leaving these roles to staff, when this is a key responsibility for them?
- Why do emotional arguments and romantic tradition prevent widespread intelligent conversations about governance reform and serious considerations about issues such as the payment of trustees, unitary boards and serious performance appraisal?
- Is the focus on transparency and accountability distracting the sector from achieving outcomes?

2.6 The Board

To deal with increased corporate scrutiny and Board fiduciary responsibility it is important that the Board¹¹ respects the following:

- i. The Board should protect members' rights ensuring equitable treatment for all members, stakeholders and clients/users of the service. It is accountable for both the governance and management of the organisation. This includes determining the vision, mission, values and strategic priorities¹² of the organisation. It must oversee the activities of senior management.
- ii. A chief executive has the ultimate management responsibility for an organisation, reports to the Board, appoints other managers and staff. Senior management has a duty to inform the Board providing information that could impact on decision making.
- iii. The Board is responsible for determining non-administrative policies of the organisation; the CEO, working within the mandate provided by the Board, is responsible for determining administrative policies.
- iv. The Board defines and approves a Code of Conduct for the directors and a separate one for the CEO. It should reinforce an ethical culture within the organisation at all levels ensuring mechanisms of compliance are put in place and actively applied.
- v. There are three types of committees/task forces:
 - a. Policy task forces
 - b. Board statutory committees dealing with issues related to the by-laws

¹⁰ For background on data and information as important elements of performance management see paper written by JPA Europe Limited entitled: Data is More Than Information - It Underpins Performance Measurement: JPA Insight's Experience and Learnings Applying Tested Corporate Sector Data Management Approaches to the Third Sector Published in Charity Finance 2008. (www.jpa-group.com)

¹¹ Adapted from JPA and Aperio templates: JPA (www.jpa-group.com) and Aperio (www.aperio.us).

¹² Adapted from JPA and Aperio templates: JPA (www.jpa-group.com) and Aperio (www.aperio.us).

Third Sector Governance: Transparency and Leadership

- c. CEO working committees, established by and reporting to the CEO.
- vi. Annual evaluation is essential and it should include evaluation of the Board itself, Board committees and Board members.
- vii. Four monitoring options are available:
 - a. CEO report to the Board.
 - b. Board task forces and statutory committee reports.
 - c. Independent third party reports.
 - d. Periodic financial reports
- viii. The Board completes an annual written appraisal of the CEO.
- ix. The Board chair coordinates written appraisals of the volunteer directors.
- x. Training for trustees and staff is a priority, a budgeted item.

This leads to a number of questions for further analysis including what are the main features which could define "good governance"?

2.7 Social Enterprises and Trading

Another example of a way to exercise responsibility and appropriate governance and leadership has to do with being social entrepreneurial; contributing to organisational sustainability through social enterprise and trading.

As the 'owner' of the trading activity a third sector organisation should treat trading as if it were a major shareholder¹³.

However, from another perspective a question needing answering is: can the Social Economy provide guidance?

2.8 Leadership¹⁴ - Imperfection Without Delusion

There have been a multitude of leadership theories over the years. These have ranged from the great man theories to those that focus on participative leaders, transactional or management approaches to leadership, task oriented leaders, and to transformational inspirational leaders. Currently the debate builds on different aspects of each of the above and it can be summarised as follows.

2.8.1 Leadership vs. Management

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

In this debate, the role of the leader is seen on one side as simply ensuring tasks are completed and the organisation runs smoothly. On the other side of the debate, leadership involves relationships with teams and individuals, potentially leading to organisational change¹⁵.

¹³ Papers prepared by JPA give more detail (www.jpa-group.com)

¹⁴ Adapted from papers and templates prepared by JPA (www.jpa-group.com) and Aperio (www.aperio.us).

¹⁵ Kotter, John, 1996. *Leading Change*. Harvard Business School Press.

2.8.2 The New Leadership Challenge

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

Past theories of leadership have taken an individualistic perspective of the leader, whereas this school of thought¹⁶ focuses on collaboration, information sharing, participation in and contribution to key decisions that have to be made, and on front line innovation¹⁷. Leaders, whilst being strategic, encourage bottom-up creativity and problem solving making use of the skills and competencies of staff within an organisation¹⁸. Persuasion is a key ingredient. This approach is seen by many as creating competitive advantage.

2.8.3 Multi-Directional Leadership

Although leadership theories have abandoned the great man idea, there is still a focus on one individual dominating a group. Leadership that is responsive, on the other hand, is used to change how we think. It requires widely dispersed, multi-directional leadership that can shift rapidly from one person to the next. To show leadership in the current environment, it is necessary to be personally creative or quick to recognise opportunities in the creative work of others and to support continuous learning¹⁹. The role of relationships is less important than the ideas and knowledge.

A slightly different form is leadership that focuses on spontaneous action which challenges what someone else is saying and advocating a different idea or direction. It is also the entrepreneurial seizing of opportunities, and it is found in organisations that require change and innovation. It is facilitative and utilises information that emerges often at the front lines with employees closest to the market and the need for new products or services. It values transparency and relationships as well as new knowledge²⁰, seeing leaders as changing and emerging throughout the organisation.

This type of leadership is of particular importance for the social sector: “The key is to get people talking and working together across the boundary lines that traditionally divide and diminish a community --- people from government, corporations, social agencies, ethnic groups, unions, neighborhoods and so on”²¹.

¹⁶For information on similarities and differences on leadership styles of men and women see Eagly, A. H., Johannesen-Schmidt, M. C., and van Engen, M., 2003. 'Transformational, Transactional, and Laissez-Faire Leadership Styles: A Meta-Analysis Comparing Women and Men.' *Psychological Bulletin*, v.95.

¹⁷ McCrimmon, Mitch, 2003. 'What's wrong with leadership?'; www.leadershiplearning.org. Viewed November 25, 2005.

¹⁸ Neilson, Jeffery, 2004. *The Myth of Leadership: Creating Leaderless Organisations*. Published by Davies-Black.

¹⁹ Senge, P. (1998) 'The Practice of Innovation', *Leader to Leader* 9. <http://pfd.org/leaderbooks/l2l/summer98/senge.html>

²⁰ Neilson, Jeffery, 2005. 'The values and practice of the new paradigm in management: Peer-Based Organisations'. *Centrepoint for Leaders Newsletter*.

²¹ Gardner, John, 1998. 'Foreward'. *Boundary Crossers: Community Leadership for a Golden Age* by Pierce and Johnson.

2.8.4 Social Entrepreneurs²²

Social entrepreneurs²³ are innovative, risk-taking entrepreneurs seeking a triple bottom line return. They are energetic, persistent, pragmatic and confident, with an ability to inspire others to join them in their work. They are mission and values driven. Typically they feel responsible to a cause or a mission.

Their leadership style is often focused on their own life²⁴; it is an outlook on life and a belief about the leader's role in the world. They accept risk and responsibility; they often do not stay in their comfort zones or maintain the status quo, but focus on continual growth and improvement. It is all about initiative, decision-making and responsibility. They lead by example and seek to inspire and motivate those around them to reach their own potential. They believe in continuous self-improvement.

2.8.5 The Obligation of Leadership

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

A leader is obliged to:

- Understand and challenge the organisation's strategy; and once finalised, own it, support it, and implement it.
- Encourage ownership in others.
- Manage within ethos of the organisation.
- Challenge and encourage individual growth and opportunities within or beyond one's organisation.
- Stay engaged through difficult situations, not avoiding them or passing them to others.

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

2.8.6 Application to the Third Sector

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

There are many approaches to leadership, the application of which is dependent on the organisational needs of the day. Leaders have many traits, competencies and

²² For information of social enterprise definition see paper written by JPA entitled: Social Enterprise Activity In The UK: A Preliminary Overview (2005): JPA (www.jpa-group.com).

²³ Barendson, Lynn and Gardner, Howard, 2004. 'Is the Social Entrepreneur a new Type of Leader?' *Leader to Leader*, no. 34.

²⁴ weLEAD Inc., 2003. 'Just what is personal leadership?' *Leading Today On-Line Magazine*.

skills that reflect their positions and personalities and that allow them to play one of the leadership roles described in this paper.

Of special interest is the role a leader plays as story tellers²⁵. Organisations transform through storytelling, and leaders are one of the tellers. They do not completely control the unfolding storyline; a construction of networks of tellers in and beyond the organisation create the whole of the story. Storytelling crafts meaning into specific cultural events in an organisation, rituals and artefacts. The historical context of local stories is influenced by the wider ones within the overall political, economic, social, and ecological context.

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

3 Governance in Europe

3.1 *The Big Picture*

During these difficult times, many voices have suggested looking at the third sector²⁶ as a solution for a sustainable and innovative economy and a source of trust based on a real engagement with citizens.

This is a manifestation of a trend which is consolidating and emerging in the public debate. The Edelman Trust Barometer, whose results were presented at World Economic Forum in Davos, says that in a climate of popular distrust for business, global recession and fear for climate change, NGOs are the most trusted institutions across the world (with the exception of the Asia-Pacific region).²⁷

In the European postmodern society the third sector is the emerging source of political, economic and social transformation especially in policy-making, public service delivery and social cohesion.

Historically the sector has always been a major, though low-profile, player in European societies. One citizen out of four is involved in the sector as a member, worker or volunteer.²⁸ Third sector organisations are expanding beyond their historical environment reaching a national audience and crossing national borders. Europeans are experiencing an increasing development of European networks and growth of organisations through expansion, partnership and social franchising..²⁹

²⁵ Boje, David, 1990. *The Theatrics of Leadership Theory*.

²⁶ In this article the terms third sector, social economy, nonrpoft sector and civil society will be used indifferently despite they are not completely equivalent.

²⁷ See 2009 The Edelman Trust Barometer <http://www.edelman.co.uk/files/trust-barometer-2009.pdf>

²⁸ You can find the best report on the third sector/social economy in Europe - although bluntly incomplete and lacking in depth analysis - in http://www.eesc.europa.eu/groups/3/index_en.asp?id=1405GR03EN

²⁹ We can mention some examples like Oxfam opening branches in several countries within the Union or merging with local organisations; Credit Cooperatif launching CoopEast to fund the establishment of cooperatives in new member states in Eastern Europe; and Euclid Network launched by the professional bodies in France, Sweden and the UK to connect, develop and represent third sector leaders.

This role has been recognised by European institutions, (European Council, European Commission³⁰ and European Parliament³¹), national governments and corporations.

However, the sector has several weaknesses; governance being at the top of the list. In light of this, there appears to be a need for European standards and regulation.

3.2 Third Sector Governance Across Europe

Despite the establishment of several initiatives to define and codify good governance at the national level,³² few attempts have been made at the European level and even fewer have been successful. It is worth looking at the most important activities led by the European institutions and the third sector itself.

Following the attacks to the Twin Towers and the crackdown on non-profit organisations that had funded terrorism internationally, the European Commission started the Transparency Initiative³³ in 2004 aiming to establish a mechanism to monitor the accountability and transparency of third sector organisations across Europe and establish a register for lobbyists.³⁴

The initiative has not been a success as few organisations have registered and some of the largest refused to. However, there has been another project stemming from the Transparency Initiative which is focused on the sector and has been welcomed positively by the sector - the European Centre of Nonprofit Law's first research on accountability and transparency in the non-profit sector across the EU.³⁵

Within the sector one can count a smaller number of initiatives to promote cross border good governance, none extending to all of the third sector. The European Foundation Centre produced a list of shared principles and good practices for grant-makers across Europe but was stopped by members when it tried to draft a code of code governance.³⁶ The same happened within the business community in Europe.³⁷

Social Platform, the European umbrella organisation of national organisations and federations working in the social sphere, started a project to draft a code of governance for its members in 2006, not been able to reach any concrete

30 See <http://register.consilium.europa.eu/pdf/en/09/st07/st07880.en09.pdf>

31 See <http://www.europarl.europa.eu/sides/getDoc.do?pubRef=-//EP//NONSGML+REPORT+A6-2009-0015+0+DOC+PDF+V0//EN>

32 Codes of good governance for the sector or specific industries within the sector have been established in Estonia, France, Germany, Sweden, and the UK amongst the others.

33 See http://ec.europa.eu/transparency/eti/index_en.htm

34 See <https://webgate.ec.europa.eu/transparency/regin/welcome.do>

35 The report has not been published by the EC, a copy is available from jenna.collins@euclidnetwork.eu

36 Conversation with the Director of EFC in charge of the project. See <http://www.efc.be/ftp/public/EFCpublications/EFCPrinciplesGoodPractice.pdf>

37 See Comparative Study of the Corporate Governance Codes relevant to the European Union and its Member States

http://ec.europa.eu/internal_market/company/otherdocs/index_en.htm

achievements.³⁸ Other initiatives have created a participatory process and lively debates but have not been able to produce more than an interesting publication.³⁹

In 2007 a coalition of three British organisations – Governance Hub, ACEVO and NCVO - started working on principles of good governance in the third sector across Europe. The project has not achieved its goals. It has been resumed by Euclid Network⁴⁰ with a different focus, peer review.⁴¹

The only successful initiative has been the Global Reporting Initiative.⁴² It is a model taken from the business sector and limited to the largest International NGOs who can afford the financial and human resources required.

3.3 The British and French Models of Governance

There are several reasons to explain the poor track-record in establishing shared standards of good governance across Europe. The main explanation normally raised by the practitioners themselves are: the diversity⁴³ within the sector, different legislation between countries, different needs of organisations related to their size, a lack of incentives and a fear for overburdening European regulation. It would be helpful to test these assumptions.

The British model is exemplified in the charity – typically described ‘as a group of individuals – normally better off and inspired by religious values – associated in joint enterprise for good cause. They led the organisations autonomously raising money from the public without any intention to make any private benefit except for a good reputation. The beneficiaries – normally worse off – did not have to do anything more than thank their benefactors!’

The French model of governance is typically exemplified in the mutual: a group of individuals – normally worse off and inspired by socialist values – associated in a joint enterprise for their mutual good. The organisation is led by a group of elected members.

This is a simplification to stress that two models diverge in the mission, business model and governance structure. This dramatic diversity is embedded in political, economic and cultural diversity between the two countries.

4 Transparency and Accountability in the European Third Sector

Initiatives to improve the governance of non-profit organisations in Europe have multiplied over the last decades. There seem to be various drivers for this proliferation.

³⁸ See <http://www.socialplatform.org/Policy.asp?DocID=8104>

³⁹ A good example is the project which has led to Rydberg, E, The accountability of Citizen Associations, Foundation for Future Generations, Brussels, 2007. The donors stopped their support once the publication was made.

⁴⁰ EN is a joint venture between ACEVO, Ideell Arena (Sweden) and the Centre des Jeunes Dirigeants de l'Economie Sociale (France) see www.euclidnetwork.eu

⁴¹ The project has been re-launched at the conference held in Paris in December 2008. See http://www.euclidnetwork.eu/pubbb/events_ext.php?id=64

⁴² See <http://www.globalreporting.org/Home>

⁴³ More on the French model in Chapter 5 of this paper.

Third Sector Governance: Transparency and Leadership

- There is the genuine will to improve non-profit organisations' governance with the objective to make them more professional, efficient and effective.⁴⁴.
- There is a CSR-effect⁴⁵: 'how do we treat our stakeholders and how well do we report on what we're doing?'
- There is a wish to have transparency in decision-making, to be accountable.
- There has been an 'Enron' effect⁴⁶: 'how come nobody said something and nobody paid attention, how come there was no functioning system of checks and balances?'; followed by a full-blown financial crisis that has made people ask these same questions.
- There is the 'NGO-Watch' effect⁴⁷: how do non-profit organisations spend our money and how fat is their organisation?
- After 9/11, there is the anti-criminal and anti-terrorism effect⁴⁸.
- The complexity of county specific legal, fiscal, and governance arrangements.

For these reasons, a variety of codes of conduct, codes of practice, guidelines and handbooks have been published, most of which are national in scope. One World Trust's online database of self-regulatory initiatives in statu nascendi shows an impressive number of projects⁴⁹, while a recent study by ECNL identified over 140 of them.⁵⁰

Another reason the debate about governance is held nationally is national language. There are over thirty languages in Europe and most in-country debates are held in the national language. They rarely cross borders, although the information sources may be the same and published in a world language. That language is often English, and a certain exchange of views takes place⁵¹. Research into national states of affairs can therefore be challenging and its results difficult to judge⁵². Europe-wide discussions have started, led by statutory bodies like the European Union's and the Council of Europe's units for Civil Society, and by civil society itself, i.e. Brussels-based organisations⁵³ and European civil society networks.

On the conceptual level, the third sector in Europe encounters quite a few problems. While in the UK the term 'third sector' is common, continental Europe often prefers the use of 'civil society'. But even the European Union and the Council of Europe have trouble defining what exactly this third sector or civil society may comprise and therefore use quite a wide definition that comprises political parties, trade unions, housing corporations, health and welfare organisations, environmentalists, development aid, women's organisations, sports clubs, amateur orchestras and so on; as long as they are non-profits⁵⁴.

⁴⁴ ACEVO International Conference, 2006, www.acevo.org.uk

⁴⁵ http://www.csreurope.org/pages/en/communication_transparency.html

⁴⁶ Brickey, K.F., Enron's Legacy, [Buffalo Criminal Law Review, Vol. 8, No. 1, 2004](#)

⁴⁷ NGO Watch; <http://www.aei.org/research/projectID.21/project.asp>

⁴⁸ COM(2005) 620 and JLS/D2/DB/ NSKD(2005)8208

⁴⁹

http://www.oneworldtrust.org/index.php?option=com_content&view=article&id=84&Itemid=71

⁵⁰ ECNL Study on Recent Public and Self-regulatory Initiatives Improving Transparency and Accountability of Non-Profit Organisations in the European Union

⁵¹ Rydberg, E, The accountability of Citizen Associations, Foundation for Future Generations, Brussels, 2007

⁵² ECNL Study on Recent Public and Self-regulatory Initiatives Improving Transparency and Accountability of Non-Profit Organisations in the European Union

⁵³ e.g. Principles of Good Practice, European Foundation Centre, Brussels, Belgium

⁵⁴ Council of Europe, CM Rec(2007)14, Strasbourg 2007; http://ec.europa.eu/civil_society/apgen_en.htm#5

Although transparency and accountability are generally deemed to form part of good governance, that situation does not imply that Europeans agree on what these terms mean. The concept of governance is sometimes taken in a strict way, this exclusively to do with Board members' responsibilities and obligations; but there are those who think governance should include every aspect of the running of a non-profit organisation. Transparency can be taken as being open about financial matters, or about wider aspects of decision making. Accountability can be taken as limited reporting about a limited number of issues to a limited number of stakeholders, or as a genuine attempt to explain why an organisation does what it does to many different groups, whether this be a statutory obligation or not.

Closely related to the issue of transparency and accountability are the concepts of legitimacy and representativity⁵⁵. Where democratically chosen actors are mostly thought to be reasonably legitimate and representative the third sector's position is more complicated. Where third sector organisations carry out tasks given to them and funded by statutory bodies, their position is fairly clear. Where they are alternative traders and the public has a choice, there is no problem either. But where these organisations then go on to claim independence, lobby/advocate or criticise the market sector, public debate will start and political dispute is waiting around the corner.

Principles and values are not undisputed either. Euclid's conferences have shown that, although the third sector generally claims to observe and work according to them, it is difficult to find out what exactly they mean. They are very much a work in progress, and some of it has been made in a pan-European rather than national context, like the new Council of Europe draft code of practice⁵⁶.

5 The Social Economy in France

5.1 Introduction: Features of the Social Economy

The social economy was born when, during the second half of the nineteenth century, organisations were created to improve people's living conditions in vital areas such as housing, food or healthcare. This phenomenon extended to all parts of Europe and quickly affected all industries⁵⁷.

The intrinsic difference between these entities and any other economic activity is that the recipients of the service (the customers) are initiating the response to their own needs. These persons pooled their resources and placed them in joint ownership, in order to acquire production tools or to provide each other with mutual assistance. These organisations have a democratic governance mode, and the "one person, one vote" principle is the tenet governing the meetings at all levels of these organisations.

The social economy historically includes three types of organisation: cooperatives, mutual societies and associations. Cooperatives and mutual societies are more entrepreneurial in nature than associations, which are more focused on socio-cultural activities. Cooperatives and mutual societies have grown in France and elsewhere in Europe applying a collective entrepreneurship logic.

⁵⁵ European Economic and Social Council; http://eesc.europa.eu/sco/intro/index_en.asp

⁵⁶ Draft Code of Good Practice on Civil Participation, Conference of INGOs of the Council of Europe, Strasbourg 2008

⁵⁷ Pflimlin, Etienne (2007), "Cooperativa europaea", *Les Echos*, 24 April 2007.

5.2 Specific Features of the Social Economy's Governance

A number of persons – equivalent to France's total population – participate in election processes designating their representative bodies, leading to a total of more than 250,000 elected representatives.

These organisations are defined by a number of highly specific criteria.

- The voluntary association of the members and their free affiliation. While individuals “make commitments freely,” they also agree “to assume any responsibilities incumbent on their position as a full-fledged member of these enterprises⁵⁸.” Entry into a social economy enterprise is “open to all⁵⁹.”
- The “twin capacity” is a fundamental principle of governance. Members are involved in the production process and as customers. This changes the enterprise's objective: beyond financial profitability as it needs to satisfy the requirements of members/customers⁶⁰.
- The allocation of profits focuses on:
 - Reserves.
 - Reinvesting in the organisation, for the direct benefit of members.
 - The prohibition of any sharing of reserves.
 - The allocation of net assets remaining after the liquidation procedure to a not-for-profit purpose.

This bears testimony to the notions of collective ownership and survival of the enterprise across successive generations⁶¹.

- Democratic management illustrates the rule of equality⁶² applies to the organisation as a whole and results in an allocation of powers based on the representation of the largest number “leading to a de facto combination of economic and social objectives, economic performance and social justice⁶³.”

Social economy organisations face many challenges. Their “governance primarily consists in the search for a better balance between the various powers comprising an elective democracy. Such governance enables every person to participate, directly or indirectly, in the general meeting. Also, each person may be elected as director at the various levels, whether local, regional or national⁶⁴.”

Such a principle has its limitations. First, it is necessary to find a balance of power between officers and employees, and between managers and elected

⁵⁸ *Charte de l'économie sociale*, Cnclamca, 1980, Article 2.

⁵⁹ Statement on the cooperative identity, ICA, 1995, First Principle.

⁶⁰ Pflimlin, Etienne (dir.) (2006), Cooperatives and mutual societies: an original form of corporate governance, Report submitted to the *Institut Français des Administrateurs* (IFA), January 2006.

⁶¹ Pflimlin, Etienne (dir.) (2006), Cooperatives and Mutual Societies: an original governance mode, Report submitted to the *Institut Français des Administrateurs* (IFA), 2006.

⁶² Each member has a vote in general meetings” in Act No. 47-1775 of 10 September 1947 organizing the status of cooperatives, Article 9; “Each member of a mutual society has a vote in the general meeting”, in *Mutual Societies' Code*, Article L114-6 ; “The “one person, one vote” principle is the other golden rule of mutual societies”, in Andreck, Gérard. (2004), *Democracy, a governance principle of the GEMA mutual societies*, Gema report, Paris, p. 15.

⁶³ Richez-Battesti, Nadine and Gianfaldoni, Patrick (2006), Cooperative banks in France: the challenge of governance and solidarity, l'Harmattan.

⁶⁴ Pflimlin, Etienne (dir.) (2006), Cooperatives and mutual societies: an original corporate governance mode, Report prepared for *Institut Français des Administrateurs* (IFA), January 2006.

representatives. The second limit is associated with the place and role of the elected officials in the governance process, i.e. all matters related to their election and to the discharge of their office. This hinges on fundamental issues, such as the directors' competence, and also the fact that each director is acting in a voluntary capacity.

However, major risks threaten such organisations if any imbalance appears.

- The manager/employee might prevail over the volunteer director. Thus, the directors' competence is a pivotal concern that must be addressed by major training programmes. Social economy organisations provide such training, whether internally or by creating their own training institutions⁶⁵.
- The Board of Directors might choose a course of action separate from that of management or even systematically impose its views on the organisation as a whole and rely on the chairman's providential charisma.
- These organisations may suffer from a general lack of involvement of all players, which puts the organisation's survival on the line. If the players lose interest in the organisation as a tool for achieving their purpose, then such a situation shows that the organisation has lost sight of its initial objective and that the project needs to be redefined.

5.3 Towards a Formal Organisation of Governance in Social Economy Organisations

Social economy organisations have scrutinised their governance. A series of reports were prepared in order to establish the foundations of the governance of social economy organisations. A visible result is the growing awareness of the essential importance of democracy, a factor separating the social economy from companies limited by shares. This formal organisation has enabled social economy enterprises to promote their intrinsic identity through their own governance process. This phenomenon, aimed at formalising relationships, is relatively recent. Only in 2004 did mutual insurance companies prepare a first report that prompted a comprehensive seminal discussion focused on the importance of governance⁶⁶.

Cooperatives and mutual societies then embarked on a joint effort to find a common denominator between these two legal forms of enterprises. Such work led to a 2006 report showing the strength of the democratic model, rooted in the involvement of individuals⁶⁷. Cooperatives also conduct such work for a specific industry, as recently shown by dairy⁶⁸ or farming cooperatives⁶⁹. Another group of mutual insurance companies active in the mutual societies' community then launched regular governance research leading to the preparation of recommendations⁷⁰. These efforts went even further at a technical level (through the discussion of an often

⁶⁵ Creation of the Social Economy Entrepreneurship School (EES), a continuing education institution created in 2009, Montpellier.

⁶⁶ Andreck, Gérard (2004), Democracy, a governance principle of the GEMA mutual societies, Gema report, Paris.

⁶⁷ Pflimlin, Etienne (dir.) (2006), Cooperatives and mutual societies: an original corporate governance mode, Report prepared for the *Institut Français des Administrateurs* (IFA), January 2006.

⁶⁸ IFA, The Governance of dairy cooperatives, FNCL-IFA 2008.

⁶⁹ Coop de France, Elected representatives: questions and answers, 2007.

⁷⁰ FFSAM (2008), Governance of mutual insurance companies, Recommendations issued by FFSAM 2008, FFSAM, October 2008.

poorly understood issue, i.e. officer liability)⁷¹, and by initiating a comparison at European level⁷². Mutual organisations active in the health insurance sector also started formalising their governance mode⁷³. This process was validated by the approval of the document by the general meeting, reflecting a resolve to gain institutional validation. Finally, associations, which are other major players in the social economy community, have not directly drafted a report concerning their own governance. The current trend consists in using benchmarks external to the sector. The *Institut français des administrateurs* (French Institute of Directors), which had already promoted the 2006 report on the governance of cooperatives and mutual organisations, allowed for the preparation of a compilation of best practices recommended to associations in 2008⁷⁴. The report primarily covered the Board of Directors and its roles, powers and responsibilities. Another trend in the world of associations consists in the adoption of quality assurance approaches⁷⁵ and in the standardisation of governance modes.

5.4 External Challenges of the Governance Process

5.4.1 Pressure Resulting From European Standards: The Case of Mutual Societies

For many years, French mutual societies have been exposed to multiple external pressures⁷⁶. From major international trends, but also from European initiatives that made mutual societies implement major changes. The French Code of Mutual Societies was adopted in France in 2001, following the implementation of insurance directives leading to the adoption of new ratios and contractual modes.

The Solvency II European Directive, which must be implemented before 2012, aims at better measuring and guaranteeing the financial solidity of insurance companies. To that end, the Directive imposes new governance modes on mutual societies.

This draft Directive considerably strengthens the role of directors, whose criminal, civil and even moral liability is fully reaffirmed. The French Supervisory Authority for insurance companies and mutual societies (Acam), which interpreted this Directive in a report prepared in 2007, recalls the need “to reaffirm the central role of the Board of Directors in the conduct of the insurance company, regardless of its legal form⁷⁷.” Elected representatives shall thus be considered as the “persons in charge” of the insurer’s governance and organisation broadly defined.

The Solvency II Directive will enable directors to reclaim a role that time and practice has eroded over the last few years. Such comeback is shown by the creation of an audit committee that Acam found to be “indispensable”⁷⁸. The audit committee shall

⁷¹ FFSAM (2008), Responsibility of officers of mutual insurance companies, legal study prepared by FFSAM, May 2008.

⁷² Aisam (2006), Governance of mutual insurance companies: existing legal provisions, Aisam, 2006.

⁷³ FNMF, Governance of mutual health organisations, FNMF, September 2007.

⁷⁴ *Institut français des administrateurs* (2008), Governance in major associations and foundations. How to assess one’s Board of directors?

⁷⁵ AFNOR (2006), Governance of associations. Principles and criteria.

⁷⁶ Bouton, Daniel, For a better governance of listed companies, Medef / Afep Agrep, 2002; M. Viénot, Report of the Corporate Governance Committee, Afep-Medef, 1999; The Board of Directors of listed companies, Afep-Medef, 1995.

⁷⁷ Acam, Report on the governance of insurance companies, October 2007, 1.1.

⁷⁸ *Ibid.*, 1.1.4.

have at least three directors and shall ensure the proper functioning of internal controls. The Committee shall also provide the Board with insights in relation to certain decisions and shall contribute to the selection of the statutory auditor.

5.5 Pressures from Civil Society

5.5.1 Organisations are Called to Task in Times of Crisis: Obligation to Report

In cooperatives and mutual societies, members express their wish for greater transparency from the organisations' officers. While members might seem to be moderately interested because of their limited involvement in general meetings, this does not prevent the emergence of a new form of criticism. Indeed, the current financial crisis drives many members of banking cooperatives to reproach elected representatives their lack of communication and transparency as regards the decisions and trade-offs that have led to the economic collapse of certain financial operations. More specifically, academics have organised meetings and encounters with cooperative banks, following an article broadly circulated on Internet blogs⁷⁹. Elected officials are bracing themselves for reactions from their members. Certain chairmen have sent letters to their members, and specific messages were circulated on websites. All of these efforts actually reflect these entities' ability to foresee the base's reactions and thus correspond to a form of recognition of a challenge currently experienced by all officers. These reactions show cooperatives' intent to better communicate with their members.

5.5.2 Trusted Gift Charter

Cases of misappropriation have led in France to the expression of strong transparency requirements regarding associations receiving funds related to public health programmes. The Trusted Gift Association has created a system for controlling associations receiving gifts from individuals. This association certifies associations and checks whether they comply with the objectives for which the gifts are earmarked. A charter has been published, and associations signing it agree to comply with its provisions in consideration for the control function carried out by the Trusted Gift Association. This Association acts as a guarantor in relation to donors and the beneficiary association. The Trusted Gift Association just revised its governance mode by creating a scientific Board comprised of eminent individuals from the associations' community.

5.6 Conclusion

Internal and external forces are now obliging social economy organisations to conduct an in-depth review concerning their values and operating mode.

French cooperatives, mutual societies and associations, and all components of the social economy have been compelled to probe their governance mode. While the challenge that they have faced was mainly concentrated on mainstream principles and solely focused on the proceedings of the Board of directors, it is interesting to note that social economy entities have responded in a proactive manner. All social

⁷⁹ Dubois, Pierre, Abhervé, Michel (2009), "Cooperative Banks. From the worst to the best for the development of the social economy", on the blog published by Mr. Abhervé, Alternative Economic Website.

economy organisations have been looking into their governance mode. At the same time, a genuine improvement approach nurtures this rediscovery process aimed at giving back a role to members. The objective consists in promoting the feeling of corporate purpose⁸⁰, i.e. a strong tie between members and the organisation.

6 The North American Context

6.1 *An Impetus for Change in Governance Practice*

North American third sector organisations are largely self-governing. The leadership of these organisations have moral, legal and fiduciary responsibilities to their key stakeholders, and consequently must have the appropriate policies, procedures and people in place to execute these responsibilities effectively. Most of these Boards are volunteer-run, and as a result the quality of Board governance has not been uniform across the sector. Issues related to a lack of time, training and tools have been brought forward as possible explanations for this lack of consistency⁸¹.

The North American third sector has seen a major shift in governance practices over the past decade. Increased public and government attention on the sector has laid the groundwork for a move toward greater accountability, transparency and fiduciary responsibility.

In the US, the impetus for this shift came primarily from high-profile accounting scandals involving major corporations such as Enron and WorldCom. These and other scandals led to the 2002 passage of the Sarbanes-Oxley Act, which set new standards for corporate Board governance⁸². Though focused on private sector governance, Sarbanes-Oxley, along with cases of abuse and excess in charities, have placed a bright spotlight on governance issues in the third sector⁸³.

In Canada, major government and public attention was first placed on third sector governance in 1999 with the release of the Broadbent Report. Considered by many observers to be a watershed study on the third sector, the Broadbent report highlighted many challenges facing the sector, including the need to strengthen governance practices⁸⁴. The release of this report, coupled with the influence of the American experience and scandals in some Canadian-based charities, placed acute pressure on third sector Boards to strengthen their governance practices.

⁸⁰ Pflimlin, Etienne (dir.) (2006), Cooperatives and mutual societies: an original corporate governance mode, Report prepared for the Institut Français des Administrateurs (IFA), January 2006.

⁸¹ Panel on Accountability and Governance in the Voluntary Sector (1999). *Building on strength: improving governance and accountability in Canada's voluntary sector*.

⁸² US Securities and Exchange Commission (2002). *Sarbanes-Oxley Act of 2002 – frequently asked questions*

⁸³ Smith, P.C. & Richmond, K.A. (2007). Call for greater accountability within the US nonprofit sector. *Academy of Accounting and Financial Studies Journal*: May

⁸⁴ Panel on Accountability and Governance in the Voluntary Sector (1999). *Building on strength: improving governance and accountability in Canada's voluntary sector*.

6.2 The Movement Toward Effective Third Sector Governance

Sarbanes-Oxley and the Broadbent Report have inspired a wave of experts and scholars to study organisational responses to governance issues and develop “best practice” resources for third sector Boards. These studies have highlighted a number of key areas in which third sector organisations have attempted to strengthen governance practices.

In 2006, Carleton University, the University of Ottawa and Strategic Leverage Partners Inc. released a comprehensive joint study on Canadian Board governance practices⁸⁵. Though this study was Canadian-focused, many of the trends it identified are also found in the US context:

- Increased focus on good governance.
- Increased demand for transparency and accountability.
- Increased demand for efficiency and effectiveness.
- Increased emphasis on performance measurement.
- Increased attention placed on risk management
- Increased demand, and reduced supply, of qualified Directors.
- Rising expectations for Directors.
- Balancing process and culture.

Transparency and accountability are perhaps the biggest influencers affecting governance practice. A recent study led by the Muttart Foundation⁸⁶ found that the public still holds a high degree of trust in charities; however individuals want to see more attention placed on how charities spend their money. With respect to transparency, organisations have made attempts to improve their disclosure of financial and other performance-related information. Robert Bothwell⁸⁷ noted a trend in many US non-profit organisations toward publishing annual reports (including audited financial statements), as well as brochures, newsletters and other publications aimed at informing the public and potential donors about the activities of the organisation. Bothwell highlights the Internet as an essential vehicle for promoting transparency on a grand scale.

Boards are also increasing their transparency by opening up their recruitment processes. Whereas Boards once recruited new members on the basis of patronage and personal connections, Boards are now recruiting individuals based on skill and competence. Some Boards have taken the step of creating a “Board Profile” that lists the backgrounds and areas of expertise required as prerequisites for Board membership⁸⁸. The recruitment of these individuals are also happening using open, competitive processes.

Transparency and accountability often go hand-in-hand. Third sector organisations are accountable to many stakeholder groups, including government and private

⁸⁵ Bugg, G. & Dallhoff, S. (2006). *National study of Board governance practices in the non-profit and voluntary sector in Canada*

⁸⁶ Muttart Foundation (2008). *Talking about charities: Canadians’ opinions on charities and issues affecting charities*

⁸⁷ Bothwell, R.O. (2001). Trends in self-regulation and transparency of nonprofit organizations in the US. *The International Journal of Not-for-Profit Law*: Vol 4, Iss. 1, September

⁸⁸ Princess Margaret Hospital Foundation (2001). *Reaching for excellence – governance and performance reporting at the Princess Margaret Hospital Foundation*

Third Sector Governance: Transparency and Leadership

fundings. In a study of Board accountability in Canada, the Princess Margaret Foundation⁸⁹ identified five areas of accountability before donors:

- How are organisations using donated funds?
- Are organisations using those funds well?
- What have organisations “produced” (i.e. outputs) with those funds?
- What “outcomes” (for clients, for society as a whole) have come about as a result of the organisations outputs?
- What economic value has flowed back to the organisation as a result of the above?

Non-profit organisations are also revamping their governance-related policies and procedures. A study conducted by Grant Thornton LLP⁹⁰ found that in the US third sector, approximately 87% of over 600 surveyed non-profit organisation CEOs indicated that they created new governance policies in the wake of Sarbanes-Oxley by 2006, up from 20% in 2003. 75% created a code of ethics policy and 89% created a conflict-of-interest policy, up from 17% and 23%, respectively, in 2003.

The move toward greater accountability and transparency has also resulted in a flood of “best practice” studies⁹¹ and resources⁹². In particular, their standards provide guidelines for auditing and reporting, as well as limits to administrative and fundraising overhead expenditures.

The accountability and transparency movement has precipitated other governance trends. Boards are increasingly seeking ways to assess both organisational and Board performance. With respect to the former, many of the most effective Boards in this regard hire independent evaluators to assess programme effectiveness. These Boards measure programme performance against a set of benchmarks (which in turn are based on objective measures such as peer performance). Some Boards also calculate return on investment⁹³. Many Boards have put in place a Director evaluation process. These evaluations are often tied to Board development, as they are seen by some as a “roadmap” to building effective Boards⁹⁴.

The emphasis on accountability and transparency has also precipitated a growing concern among Directors over their personal liability. Though this concern is most prominent in the US, Canadian Directors are increasingly becoming aware of the interplay between risk and Directors’ legal and fiduciary responsibilities. Volunteer Canada⁹⁵ found that in years past, many Board members were unaware of the legal ramifications of their volunteer work.

Another major trend in third sector governance centres on the changing structure of Boards. The trend is toward having smaller and more focused Boards. Several factors help to explain this trend.

⁸⁹ Princess Margaret Hospital Foundation (2001). *Reaching for excellence – governance and performance reporting at the Princess Margaret Hospital Foundation*

⁹⁰ Grant Thornton LLP (2007). *National Board governance survey for not-for-profit organizations*

⁹¹ Internal Revenue Service (2008). *Governance and related topics – 501(c)(3) organizations*

⁹² McDermott, Will & Emery (2004). *Best practices: nonprofit corporate governance*

⁹³ Board Source (2005). *The source: twelve principles of governance that power exceptional Boards*

⁹⁴ Bugg, G. & Dallhoff, S. (2006). *National study of Board governance practices in the non-profit and voluntary sector in Canada*

⁹⁵ Volunteer Canada (2002). *Directors’ liability: a discussion paper on legal liability, risk management and the role of Directors of non-profit Boards*

Third Sector Governance: Transparency and Leadership

- Boards are recognising the need to strike a balance between diversity in skills/experience and manageable Board size⁹⁶.
- Board skill sets and operating models are being reoriented toward revenue diversification such as fee-for-service revenue⁹⁷.
- Boards are finding it difficult to retain top talent and therefore become smaller not because of need/want, but because of recruitment difficulties⁹⁸.

This latter point is endemic of the changing funding environment in North America. In Canada, governments have downloaded services to the sector while simultaneously shifting their funding away from ongoing “core” funding toward project-based funding. This has led in part to the proliferation of third sector organisations in Canada. At the same time, volunteerism is declining, due in part to changing values among young volunteers, as well as shifting priorities among specific groups of potential volunteers⁹⁹. This duality is leading some to fear a potential “leadership vacuum” across the sector¹⁰⁰.

The change in funding and volunteerism impact governance in at least two other negative ways. Many third sector Boards are finding it harder to think “strategically” in an environment of unstable funding. Many organisations (in particular those that have not been able to adapt to the changing funding environment) have become hesitant to create long-term plans for their organisations¹⁰¹. Directors have felt the pressure to participate directly in fundraising. In fact, many organisations recruit Board members on their financial connections and/or fundraising capabilities¹⁰². A preoccupation with fundraising can distract a Board away from a strategic mindset.

This reality is also found in the US context. Francie Ostrower¹⁰³ undertook a comprehensive study of over 5,100 non-profits. It found that many Boards have become preoccupied with transparency and accountability. As a result there is wide variation in the degree to which these Boards are “actively serving the organisation’s mission and ensuring that the organisation is accomplishing its mission”. Ostrower found that a minority of US Boards performed basic stewardship roles outside of accountability/transparency, such as programme/service monitoring (24%), Board performance evaluation (17%), strategic planning (44%), community relations (27%) and fundraising (29%). Even in those organisations that did engage in these other stewardship activities, only a minority rated Board performance as “excellent”.

Overall there are a number of questions to still be addressed.

⁹⁶ Princess Margaret Hospital Foundation (2001). *Reaching for excellence – governance and performance reporting at the Princess Margaret Hospital Foundation*

⁹⁷ Silber, N. (2006). Anti-consultative trends in nonprofit governance. *Hofstra University Legal Studies Research Paper Series: Research Paper No. 06-36*

⁹⁸ Bugg, G. & Dallhoff, S. (2006). *National study of Board governance practices in the non-profit and voluntary sector in Canada*

⁹⁹ Hall, M. H., Andrujow, A., Barr, C., Brock, K., de Wit, M., Embuldeniya, D., Jolin, L., Lasby, D., Levesque, B., Malinsky, E., & Stowe, S., Vaillancourt, Y. (2003). *The capacity to serve: a qualitative study of the challenges facing Canada’s nonprofit and voluntary organizations*

¹⁰⁰ Cornelius, M., Corvington, P., & Ruesga, A. (2008). *Ready to lead?: next generation leaders speak out*

¹⁰¹ Scott, K. (2003). *Funding matters: the impact of Canada’s new funding regime on nonprofit and voluntary organizations*

¹⁰² Ostrower, F. (2007). *Nonprofit governance in the United States: findings on performance and accountability from the first national representative study*

¹⁰³ Ostrower, F. (2007). *Nonprofit governance in the United States: findings on performance and accountability from the first national representative study*

1. How do you seamlessly link organisational planning processes to the practice of good governance? Should one?
2. Which came first – good governance or good planning?
3. The rapidly changing environment demands responsive planning processes and models. Does this lead to continuously changing governance systems? Can the third sector afford this?

7 Summary

Similarities exist between North America and Europe related to the desire to achieve good governance. The issues related to governance, responsibility, accountability appear to be the same, even though the context and cultures vary. Although expressed somewhat differently the general trend is towards standards that essentially are the same. Further study is needed on many issues including could the existence of different cultures have any impact on the global approach of this concept and in what ways? In addition this paper focuses primarily on France and the UK. Other models of governance in Europe beyond the French and British models need to be added to the picture and issues presented in this paper.

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

These were questions related to leadership in earlier sections. Adding to these questions a third sector organisation's leadership and key stakeholders should ask whether they are complying with standards of good governance, a sample of which is contained in Good Governance: A Code for the Voluntary and Community Sector¹⁰⁴. Research could add value allowing for comparisons, encouraging best practice.

¹⁰⁴ Publication prepared by ACEVO, Charity Trustee Network, ICASA, NCVO, on behalf of the Hub of Expertise in Governance 2005.