

DR JO CRIBB
www.jocribb.co.nz
jo@jocribb.co.nz

LEARNING FOR PURPOSE

Increasing the governance capability of
not-for-profit organisations

**AUGUST
2022**



EXECUTIVE SUMMARY

Many serve tirelessly on the boards of not-for-profits and community organisations. Their leadership means we have art, sport, social services, and the many other activities that enrich our lives.

Currently, the governance of not-for-profit (NFP) organisations is of variable quality.

Good governance drives impact and organisational performance which is essential for the not-for-profit organisations themselves and the communities they serve.

Yet there is limited investment in governance development for not-for-profit boards.

For this to change, and for future investment to be effective, there will need to be:

- **A focus on getting the basics right** including not-for-profit governance and volunteering being valued, all board members accessing foundation level modules, and better support for board processes such as recruitment. Creating a pool of skilled board secretaries will be a positive first step.
- **A collaborative eco-system for NFP governance** including employers supporting their staff into not-for-profit roles; government agencies and other funders incentivizing good governance; and charity regulators focusing more on capability building.

If not-for-profit boards are supported to get their basic governance understanding and processes right through external support, many will be able to move their focus to generating more impact for the communities they serve.

Given our slow progress towards social and sustainable development, all of us will benefit from increased leadership from not-for-profit boards.

ACKNOWLEDGEMENTS

This research would not have been possible without the generous support of the Winston Churchill Memorial Trust New Zealand and the twenty leaders who generously shared their insights and wisdom.





CONTENTS

Introduction: Why NFP governance matters	5
Investigating NFP Governance Capability	8
Lessons from the Literature	9
What works to enhance NFP governance	13
Learning for Purpose: Discussion	21
Conclusions	24
Appendix 1: Interview Schedule	25
Appendix 2: Participants	26

INTRODUCTION: WHY NFP GOVERNANCE MATTERS

In Aotearoa New Zealand an estimated half a million people volunteer for governance roles in not-for-profit organisations¹. JBWere calculated one in every 40 New Zealanders is a member of a NFP board or committee.

Most will be volunteers, generously giving their time and expertise to support others. Without their tireless work, there would be few sporting fixtures, or art performances, and fewer social services, as just a few examples of the important role community organisations play in our lives.

New Zealand has many community groups (115 000 at last count) who, as well as ensuring community well-being, accounting for six percent of GDP and employing nearly five percent of workers², generate the need for volunteers to govern them.

At the minimum, good governance is required by legislation. Governance duties have been explicitly included in the amended Incorporated Societies Act 2022³ aligning the requirements of directors of companies and those of incorporated societies.

Unlike their corporate colleagues, the members of NFP Boards⁴ are presented with a wide and complex range of challenges to navigate in their spare time as volunteers with a mix of board members some of whom may have limited governance experience and without a legal team or company secretary to advise them.

Most commentators agree that governance is becoming more complex: increasing regulation, stakeholder demands, competing interests and more risk⁵. Not-for-profit boards are particularly experiencing increased complexity. This includes challenges attracting skilled members, constitutions that make effective governance difficult, increased demand for their services and ongoing financial issues⁶.

The demands on individual board members have correspondingly increased: the complexity of the role, the level of personal liability and the time

¹ There are many names for this sector. For ease of understanding, 'not-for-profit' is used in this report as it is widely internationally recognisable. Not-for-profits typically have a collective, public or social purpose and do not return a profit to shareholders.

² JBWere (2017) *The New Zealand Cause Report; Shape of the Charity Sector*, March 2017

³ <https://www.legislation.govt.nz/act/public/2022/0012/latest/LMS100809.html>

⁴ Those performing the governance function in the not-for-profit sector are often called committees, trustees, or other terms. For clarity, the group that is tasked with the governance function is referred to as 'the board' in this report.

⁵ <https://www.iod.org.nz/resources-and-insights/research-and-analysis/always-on-duty-the-future-board/#>

⁶ <https://www.volunteeringnz.org.nz/wp-content/uploads/what-is-the-future-for-ngo-governance.pdf>

required. COVID 19 has intensified this⁷, and amplified the need for not-for-profit organisations to be well governed.

Increasingly complexity will continue to characterise NFP governance. Disruption via technology will have an increasing impact on NFPs. NFPs will still be driven by increasing complexity of their clients' needs but also on-going changes in funding and policy. All doing so with financial reserves run-down over the past few years.

However, the general conclusion is that the quality of governance is variable. Boards often struggle to provide strategic leadership and oversight and monitor impact and organisation performance⁸.

While the development of board members has been shown to deliver an impressive return on any investment⁹, and will increase the effectiveness of the organisation's performance¹⁰, limited investment in the development of boards and their individual members occurs in the not-for-profit sector¹¹.

The opportunity now exists to change this lack of investment. Not only will investing in governance development for board members result in increased performance for the individual organisations they govern, it will also contribute to increased not-for-profit sector capability and the opportunity for not-for-profit boards to drive systems change¹².

However, what works to develop not-for-profit board members is unknown. Research or commentary is sparse, with any research focusing on specific aspects of governance (such as lack of induction¹³) or attempts to define what good governance is¹⁴, but with little guidance on how to achieve it.

The focus of this Winston Churchill Memorial Fellowship has been investigating **what works to increase the governance capability of not-for-profit boards.**

What works specifically for groups currently under-represented in governance (such as indigenous and ethnically diverse members, those from vulnerable communities, and younger members) and under-served by governance development (small and rural organisations) has been a focus.

⁷ https://www.volunteeringnz.org.nz/wp-content/uploads/Time-to-Shine-_COVID19-Impact-Community-Survey-Report.pdf

⁸ <https://communityresearch.org.nz/wp-content/uploads/formidable/8/Governing-For-Good-Report-Jo-Cribb-1.pdf>

⁹ <https://learningforpurpose.org/research/social-return-on-education-and-training/>

¹⁰ <https://www.nsba.org/-/media/NSBA/File/cpe-eight-characteristics-of-effective-school-boards-report-december-2019.pdf>

¹¹ <https://learningforpurpose.org/research/social-return-on-education-and-training/>

¹² https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3737045

¹³ <https://www.prnewswire.com/news-releases/onboarding-is-point-of-weakness-on-association-and-nonprofit-boards-300532709.html>

¹⁴ <https://aicd.companydirectors.com.au/resources/not-for-profit-resources/not-for-profit-governance-principles>



Ultimately when not-for-profit boards excel in their governance role, the potential increased impact of their organisations for the communities they service is immense.

INVESTIGATING NFP GOVERNANCE CAPABILITY

The aim of this project was to better understand how to develop the governance capability of not-for-profit boards.

In particular:

- What are the current and likely future pressures on NFP boards?
- How well are NFP boards placed to govern now and in the future?
- What support is currently available for NFP board development?
- What support is most effective and why?
- What works for groups who are under-represented in NFP governance?
- What works for boards least able to access development opportunities (such as small, rural NFPs)?
- What should NFP board development look like in the future?

Three phases of work were completed:

- A review of current research to identify what is already known about governance development for NFP boards (March – April 2022).
- Semi-structured interviews (using the interview schedule in Appendix 1) with governance leaders and experts (as outlined Appendix 2) in New Zealand, Australia, and the United Kingdom (April – June 2022). Interviewees were selected based on their knowledge of and leadership in community governance. The 'Snowball' recruitment technique was used, with the initial respondents suggesting further experts to be included¹⁵.
- Testing and peer review of results and insights (July 2022)

Limitations

The literature review showed that there is little research of what works, and few evaluations of development programmes could be located. As such the project is reliant on the insights of those who work to support not-for-profit boards.

While acknowledging the insights shared by participants are based on their years of experience, there is the need for more quantitative and qualitative evaluation and research into impact and effectiveness of not-for-profit capability building.

¹⁵ <https://research-methodology.net/sampling-in-primary-data-collection/snowball-sampling/>

LESSONS FROM THE LITERATURE

A review of relevant literature showed that there is little empirical evidence of what works for not-for-profit governance development, though several insights could be found.

Limited investment in training and development in NFP sector

Investment in training and development in the not-for-profit sector is limited even though a 2015 Australian study found that any investment in training had economic impact of +6 (for each dollar spent there was an average positive return of six dollars through better leadership, more effective use of funds and overall greater performance). A third of organisations had no training budget. Board members from small NFPs received least opportunities¹⁶.

Reasons for the lack of investment on training are resource constraints; self-regulation by leaders (i.e., not allocating budget for development as it is not seen as a priority or indulgent); and scrutiny from donors on spending on overheads¹⁷.

Boards either provided no development opportunities or relied on development provided for their members by other boards, or development self-funded by individual board members.

The best predictor of the level of investment in board development is the approach of the Chair and Chief Executive. The importance one or both placed on board members understanding their environment drove investment or not in board training¹⁸.

The NFP sector may not be alone in under-investing in governance development. A McKinsey survey of 1000 corporate directors found less than one quarter of new directors said they received sufficient induction and 20 percent said there were few ongoing development opportunities¹⁹.

Board members are usually volunteers

Most board members receive little or no payment for their not-for-profit governance roles. Lhotka's (2020) research found volunteers are instead motivated to take on governance responsibilities to give back and as a way of staying active. Key to staying engaged was role satisfaction, and over

¹⁶ <https://learningforpurpose.org/research/social-return-on-education-and-training/>

¹⁷ <https://silaprogram.com.au/wp-content/uploads/2021/02/Leadership-for-Purpose-2019.pdf>

¹⁸ <http://www.jocribb.co.nz/research>

¹⁹ <https://www.mckinsey.com/business-functions/strategy-and-corporate-finance/our-insights/a-time-for-boards-to-act>

time some volunteers build an identity linked to their service, which means they stay committed for an extended period²⁰.

A survey of 200 NFP New Zealand boards found 61 percent of board members had served for more than seven years. Most (89 percent) served on more than one board and 40 percent had governance experience of 16 years or more. Board members were typically 40 – 69 years old and 72 percent were tertiary educated²¹.

This mirrors New Zealand overall volunteering statistics. People aged 45+ are more likely to volunteer than younger people, a small number of volunteers do most of the work, and professionals are more likely to volunteer than non-professionals²². Ranson et al (2005)'s²³ survey of UK school governors also found that volunteers were generally white, middle aged, middle class, with middle incomes.

This poses two challenges for not-for-profit governance: as those who are most likely to volunteer are not diverse, boards are not likely to be so, and the pool of board members is ageing.

There is a body of literature that looks at how to effectively engage and manage volunteers. Best practice volunteer management processes will:

- Recognise that volunteers bring different skills and knowledge; and
- Acknowledge that their motivation matters. Volunteers will have a range of motivations such as learning new skills, meeting people, sharing their skills, and their interest in a particular cause.

Successful engagement and retention of volunteers happens when volunteers' skills, knowledge and motivation is balanced with the needs of organisation²⁴.

However, the insights of volunteer management do not seem to be applied to board members. Board members may not see themselves as volunteers (volunteers help in the kitchen, not boards). Therefore, insights from the volunteer management research about what it takes to engage and successfully retain volunteers has not been linked to not-for-profit governance development.

If it were so, there would be more emphasis on ensuring board work not only served the organisation, but also motivated board members to stay engaged.

²⁰ <https://dspace.library.uvic.ca/handle/1828/12442>

²¹ <https://search.informit.org/doi/abs/10.3316/ielapa.201003434>

²² <https://www.volunteeringnz.org.nz/state-of-volunteering-2020/#:~:text=In%20a%20pre-lockdown%20State,their%20biggest%20challenge%20before%20lockdown.>

²³ <https://www.tandfonline.com/doi/abs/10.1080/00131910500149457>

²⁴ https://www.volunteeringaustralia.org/wp-content/files_mf/1377052716VaGuidetotrainingvolunteerspartA.pdf

High profile governance failures have driven investment in governance development in some areas

If there are examples of investment in governance development for not-for-profit boards, it was often linked to governance failures. Sports governance is an example. The governance of national and international sporting organisations has come under increasing attention, through perceived poor performance, ethical issues, and lack of diversity.

Indeed, Ferkins and Shilbury (2012) found weaknesses in the strategic capability of national sporting organisations, linked to an absence of board members with strategic thinking ability and skills beyond sport knowledge. Some board members struggled with complexity of information provided for strategic decisions²⁵.

Emerging best practice

Some emerging good practice can be identified in the literature.

Focus development on governance leadership and strategy

Evaluation of Sport NZ's investment in the governance development of the boards of national and regional sports organisations found considerable improvements in constitutions (such as board tenure, size, selection processes, diversity of skill) and some improvements in the effectiveness of boards (such as more focus on board agendas) but found that boards were preoccupied by operations.

The small size of many not-for-profit organisations, with few or no paid staff, means many board members are critical to delivery and operations and this becomes the focus of board meetings.

They concluded that governance development needed to focus supporting boards to understand their critical role in policy and strategy development and risk²⁶.

That boards are too focused on operations and administration is echoed in several studies.

- Boardsource's study of 820 American NFPs found boards were overwhelmingly focused on fundraising, at expense of other governance functions²⁷.
- A 2021 Australian NFP governance and performance study found that COVID-19 had driven a more operational focus for boards²⁸.

²⁵https://www.researchgate.net/publication/260374372_Good_Boards_Are_Strategic_What_Does_That_Mean_for_Sport_Governance

²⁶ <https://sportnz.org.nz/media/1678/governance-benchmarking-summary-may-2014.pdf>

²⁷ <https://leadingwithintent.org/wp-content/uploads/2021/06/2021-Leading-with-Intent-Report.pdf?hsCtaTracking=60281ff7-cadf-4b2f-b5a0-94ebff5a2c25%7C428c6485-37ba-40f0-a939-aeda82c02f38>

²⁸ <https://www.aicd.com.au/corporate-governance-sectors/not-for-profit/studies/not-for-profit-governance-and-performance-study-2021.html>

- Erakovic et al (2009) found 64 percent board members said the main responsibility of boards was strategy and policy making but this was not evident in the work of their boards²⁹.

Erakovic et al concluded that board training needed to focus on the 'intangible aspects of governance' such as creating vision, change management, and relationship building.

Likewise, Australian data showed strategy ranked as the highest competency needing investment, and professional development focused on strategic leadership and impact evaluation created the greatest return³⁰.

Understanding their governance role

Twenty five percent of board chairs gave their board members a grade of 'C' or below for understanding their roles and responsibilities, especially the difference between governance and management³¹. This lack of understanding of governance has even promoted calls for boards to appoint one of their members as Chief Governance Officer to be tasked with ongoing improvement of governance³².

The importance of good board processes

Good recruitment, induction, evaluation, and succession planning are seen as critical board performance and sit alongside ongoing board development³³. Indeed, while induction can be seen as the first governance training opportunity, half of board members will not receive any³⁴.

²⁹ <https://search.informit.org/doi/10.3316/IELAPA.201003434>

³⁰ <https://learningforpurpose.org/research/social-return-on-education-and-training/>

³¹ <https://www.journalofaccountancy.com/issues/2018/nov/effective-not-for-profit-boards.html>

³² https://ssir.org/articles/entry/does_your_nonprofit_board_need_a_cgo

³³ https://www.researchgate.net/publication/230155730_Board_Development_Practices_and_Compentent_Board_Members_Implications_for_Performance

³⁴ https://www.heidrick.com/en/insights/boards-governance/strengthening_the_onboarding_practices_of_new_directors

WHAT WORKS TO ENHANCE NFP GOVERNANCE?

The twenty NFP leaders interviewed for this report identified several effective opportunities to enhance NFP governance.

NFP governance is increasingly complex and dynamic

Those interviewed confirmed not-for-profit boards are facing new and ongoing challenges. Most interviewees mentioned ongoing issues with securing adequate funding, especially since COVID-19 had weakened many balance sheets. They noted that philanthropic funders were pulling back their granting after having increased the amounts available over the previous two years. Cost of living crises in all three countries were expected to increase demands for not-for-profit services in face of diminishing funding.

Interviewees also commented on the impact of volunteers wanting more ad hoc or project-based opportunities. The 'cult of the busy' has resulted in fewer people willing to volunteer for boards. This has increasingly resulted in board recruitment being 'any warm body will do.'

The impact of increasing regulation and expectations of professionalism in community organisations was also raised. The Australian Royal Commission into Aged Care³⁵ was cited as example that increased accountability for board members for service quality. As a result, many boards have sought clinical expertise on their boards to help manage this.

High profile scandals have also challenged the legitimacy and reputation of the sector. For example, the foundation established on behalf of the beloved Captain Tom who raised millions of pounds for the NHS is now being investigated for inappropriate use of funds³⁶.

Boards are not well prepared to govern

These trends make for a complex and dynamic governance environment: an environment interviewees concluded most not-for-profit boards were not well-equipped for.

Several specific capability gaps were identified. Financial capability was viewed by most interviewees as key area of weakness. While boards can usually access someone who has financial skills, some board members are unlikely to have a good understanding of the financial health of their organisation. This makes well-informed strategy and decision-making challenging.

The ability of boards to understand how their organisation can create value and impact is also not well understood. Few boards have effective strategy; many have no plans or targets. This is often because, interviewees concluded, most boards do not understand their role as governors and need

³⁵ <https://agedcare.royalcommission.gov.au>

³⁶ <https://www.bbc.com/news/uk-england-beds-bucks-herts-61986597>

to focus on strategy (as opposed to operations). This can also generate tension with management, as boards stray into management decisions.

The capability to hold good meetings was another gap interviewees noted. Boards can be trapped into routine meeting agendas that do not enable effective decision-making or conflict resolution, with meetings that focus on the management report, operational detail and looking backwards at things that have already happened and are administration heavy.

To top it off, board members are often recruited from other board members' networks and offered little or no induction. As a result, boards do not have a good mix of skills to draw from and board members are not well prepared for their roles.

Sector level interventions can work

There are, however, opportunities to influence the capability of NFP boards across the sector.

Regulators who seek to educate and support

Most interviewees acknowledged the important role the charity regulator can play in building sector capability. In New Zealand, the regulator is Charities Services³⁷; in Australia, the Australian Charities and Not-for-Profit Commission³⁸ and it is the Charity Commission for England and Wales³⁹.

Their role is to maintain a registry of charitable organisations, investigate issues, provide education and guidance to charities and advice to governments on the charity sector.

However, there are different experiences of the effectiveness of regulators across the jurisdictions. The three regulators were perceived to sit at different points along the 'police the sector' to 'educative' continuum.

Interviewees from England were complementary about the current strategy of their regulator, commenting on the support provided for board members to help them understand their role and accountabilities.

The Commission produced the series 'Five Minute Governance Guidance' which has been well received. It will also launch a new portal next year which will create an individualised relationship with every board member in England and Wales; a useful mechanism for providing more advice and opportunities for development.

Interviewees from New Zealand and Australia were less enthusiastic about the positive impact their regulators made on enhancing sector capability.

³⁷ <https://www.charities.govt.nz>

³⁸ <https://www.acnc.gov.au>

³⁹ <https://www.gov.uk/government/organisations/charity-commission>

Industry and peak bodies that expect high governance standards

Interviewees acknowledged the important role of industry and peak bodies in identifying and upholding governance standards. Examples were given of peak bodies in the UK mental health and housing sectors whose accreditation processes involved audits of governance quality. Federations, membership bodies and associations also were seen as important for setting and upholding governance standards.

Infrastructure organisations

Infrastructure organisations, such as the UK Association of Chairs⁴⁰, (recently closed) Small Charities Coalition⁴¹, the Honorary Treasurers Forum⁴², and the Young Trustees Movement⁴³ were seen to be supporting governance capability building.

They were seen to offer important services such as policy banks (on-line libraries of templates and draft policies), training opportunities, and peer networks.

Funders that expect high governance standards

Some government funders include governance standards and requirements in their service contracts. Meeting governance standards can be part of accreditation processes that enable NFPs to apply for contracts. For example, Sport NZ include an expectation of gender diversity on the national boards they funded and achieving gender balance was a requirement of continued funding⁴⁴.

Some philanthropic funders also require a standard of governance to be achieved before funding. For example, the Lloyd's Bank Foundation provides a range of governance development services as part of its granting model⁴⁵.

Best practice codes

Interviewees identified the positive impact codes of best practice can have on governance capability. The Australian Institute of Company Directors' Not-for-Profit Governance Principles⁴⁶ is being used by boards who take one

⁴⁰ <https://www.associationofchairs.org.uk>

⁴¹ <https://www.smallcharities.org.uk/about>

⁴² <https://www.honorarytreasurers.org.uk>

⁴³ <https://youngtrusteesmovement.org>

⁴⁴ <https://sportnz.org.nz/resources/board-gender-diversity-target/#:~:text=In%20June%202018%2C%20Sport%20NZ,part%20of%20the%20investment%20process.>

⁴⁵ <https://www.lloydsbankfoundation.org.uk/we-develop/support-for-charities/stronger-governance>

⁴⁶ <https://www.aicd.com.au/content/dam/aicd/pdf/tools-resources/nfp-governance-principles/06911-4-ADV-NFP-Governance-Principles-Report-A4-v11.pdf>

principle each meeting and discuss how well they are doing. It provides a useful framework for boards to review their performance.

An evaluation of the impact of the English and Welsh Charities Governance Code⁴⁷ shows that charities that align their governance to the Code perform better than those do not. Charities are encouraged to publish how they comply with the Code's principles in their annual report, but few did⁴⁸.

Role of professional services

Interviewees identified the critical role of those who provide professional services to the sector in enhancing governance capability. They mentioned specifically the role of auditors, consultants, lawyers, and accountants.

Role of employers

Some employers were active in supporting their employees to take up governance roles in their communities and provided time and resources for governance development for their staff. Not only does the community benefit from such expertise, but employers do through the leadership skills their employees develop while serving on not-for-profit boards. PwC's global programme was seen as an exemplar⁴⁹.

Compulsion will be necessary to increase capability

Almost all interviewed thought boards would need to be compelled or incentivised to increase their governance capability.

Even when accessible training is offered, interviewees report that board members do not often take it up. Time pressures, not understanding what they do not know, and an attitude that governance is common sense were the reasons for low take-up of governance training.

The attitude that because board members are volunteers, their governance role doesn't matter as much and being unpaid means less responsibilities prevails. Unfortunately, the legal frameworks of the three countries does not support this attitude, with the legal duties of many board members at a similar level to those of large corporate boards.

Incentives such as being able to access or maintain funding was seen as key. But this needs to be supported by clear messaging about the value of good governance. Development opportunities also need to be widely available and easily assessable.

Mandatory reporting on compliance with best practice was viewed by some interviewees as the most effective mechanism for improving governance. This would require organisations to publish in their annual reports how they comply with governance best practice standards. Reporting should include

⁴⁷ <https://www.charitygovernancecode.org/en>

⁴⁸ <https://www.rsmuk.com/ideas-and-insights/decoding-the-charity-governance-code>

⁴⁹ <https://www.pwc.com/gx/en/about/corporate-sustainability/our-stories/growing-ngos-and-pwc-partners-and-staff-through-board-placement-programs.html>

measures of board diversity, how many board members have completed training, and the frequency of board reviews.

To underpin this, interviewees identified the need for all board members to have completed basic governance modules, like a 'driver's licence' for not-for-profit governors.

Interviewees agree that all board members should have basic governance training to ensure they understand their role and be able to actively participate. For this to occur, it will need to be incentivised through funders.

Development opportunities offered to individuals will also need to tap into their motivation. NCVO research found that the reason many board members attend training session is that they want to learn, to do a good job and fear the consequences of getting governance wrong (considering recent high profile charity governance failures).

Best practice for individual board members looks like 'little and often'

Interviewees found that governance training that was offered as 'bites', no longer than 90 minutes, on key topics such as legal obligation, the difference between governance and management, deciphering financial accounts, making good strategy and performance measures, has been well received.

Such 'bites' can be delivered on-line both live and recorded. NZ Cricket found 20 percent of their members were happy to learn alone in their own time using on-line resources, but that 80 percent preferred to interact at a 'live' webinar.

Such training has been successful for newly elected school trustees as provided by the New Zealand School Trustees Association (NZSTA). Those who participate rate the experience highly.

Ensuring that any training delivered is practical and followed up with templates and guidance so attendees can easily implement changes in their own boards was also seen as key. Opportunities for peer-to-peer discussion and sharing was also valued by attendees.

Working with the whole board is expensive but effective

Interviewees noted that whole board training can be very effective for improving board effectiveness when compared with the impact of one or two board members attending training.

Ensuring any whole board training is applied to the context of the board is critical. For example, rather than a theoretical session on strategy development, a workshop focused on developing the board's strategy will be more effective. Peer to peer and on-the-job are the key phrases.

NHS Trust boards, for example, were encouraged to spend the first 15 minutes of each board meeting hearing from a patient about their experience. Effective boards would use this opportunity to discuss the

insights shared by patients and frame their meeting around delivering better services to patients and their families.

Also, to be effective, whoever facilitates and delivers the training will need to be trusted and understand the board's context. Training triggered by the findings of a board evaluation can be effective.

Chairs were acknowledged as having a specific role in ongoing governance development of their boards. Providing support for Chairs such as networks that provide opportunities for peer-to-peer discussion would enhance their development and potentially that of their board.

Likewise, Chief Executives were also seen as having a critical role in supporting governance development. Some Chief Executives see their boards as a necessary evil and compliance cost, others seek to support board development to receive the benefits of effective organisational governance.

Targeted strategies needed for under-represented groups

Indigenous people, young people, people with disabilities, those who live rurally or in isolated areas are under-represented on the boards of not-for-profits.

Few interviewees had specific examples of initiatives that were working well to support board members from under-represented groups or to grow the diversity of the not-for-profit governance pipeline.

What was identified was the need to profile role models to create visibility about what governance was and how to engage. Many leaders in under-represented groups will have many skills and knowledge to offer boards, but may not understand the transferability of their skills, nor feel welcome in board rooms. Indeed, Reach Volunteering's data shows that white British applicants are three more times likely to be appointed to a role⁵⁰.

Targeted training to expose communities to the opportunities to be on boards and provide confidence was identified. Such training will need to acknowledge that new migrants may have experience in operating under different legal frameworks and governance models.

The importance of board observer roles was highlighted. Such roles provide opportunities to engage and learn about governance. Membership of advisory boards was also noted as a useful pathway into governance roles.

Systems barriers will need to be tackled

While interviewees identified a range of initiatives at the sector, board, and individual level, they pointed to several systemic challenges that need to be overcome.

⁵⁰ https://docs.google.com/document/d/17RRxBrggDSMqXi3x2JX3wU_o0szz33B4/edit

Not-for-profit Governance is not valued

Interviewees pointed out that because most board members are not paid, the role is less valued. Not being paid, or paid a minimal amount, can result in board members 'doing their best' but taking little accountability for their and their organisation's performance and not prioritising their board work.

Not-for-profit governance is also viewed by some as uninteresting because it is focused on compliance and policy. Board members often put themselves forward because they have a connection to the cause of the organisation and a desire to 'give back'. But the leadership dimensions and potential to make an impact can be crowded out by overly operational, compliance and administrative focused meetings.

Linked to this, interviewees identified that the skills and time of not-for-profit board members may not be well utilised in boards focused on compliance, operations, and administration.

Several interviewees advocated for philanthropic funding for paid board secretary roles, to support boards to fulfil their compliance, and administrative roles. One skilled secretary could serve multiple boards and ensure each board has the processes in place to be effective. This would free board members to focus more on strategy, impact, and performance, which will be more aligned to the motivation of board members and more likely to ensure their ongoing engagement.

Not all boards need to be boards

Several interviewees questioned whether all boards needed to be boards and whether governance bodies in some small informal entities are created because the legal framework or funders demand it. This is particularly prevalent in New Zealand where many funders only fund incorporated societies or trusts.

Interviewees recommended funders and regulators need to think about how to create opportunities for groups of people to come together with a specific, often timebound or geographically bound purposes (such as creating a community garden) and obtain public funding without the need for formal governance structures. Some have overcome this problem by creating umbrella funding models, where a backbone or parent organisation receives the funding on behalf of the group. Others are exploring cluster models of governance, where an oversight group provides governance for a range of smaller projects and groups.

The 'Overhead Myth' as a barrier to governance development

That not-for-profits should have minimal overheads is something funders, donators and not-for-profit leaders expect and police. Should a not-for-profit have higher overheads, it will be deemed operationally inefficient and wasteful of funds.



Many not-for-profits aim for overheads of around ten percent. This leaves no ability for the professional development of staff or the board, as well as limited ability to innovate, invest in improved systems and ensuring the well-being of their staff.

Increasingly research and commentary has questioned the use of overheads as a measure of a not-for-profit's performance, instead proposing measuring the impact and value.

While the focus on overheads as a marker of efficiency and effectiveness of a not-for-profit exists, governance development is unlikely to be a priority.

LEARNING FOR PURPOSE: DISCUSSION

Three themes emerged from the interviews:

- **Get the Basics right.** The need for all board members to have a foundation level of knowledge of governance and for their work to be valued and supported.
- **The system around NFP boards should collaborate to support them.** Funders, professional services, employers, and regulators should work collectively to support good governance.
- **NFP Governance needs to be recognised as community leadership** and for its potential for systems change.

Each theme is discussed here.

Get the basics right

For good governance across the not-for-profit sector some foundation blocks need to be in place.

- **Not-for-profit is recognized as a critical leadership role in our communities.** For this to happen, there needs to be consistent messaging about the value of not-for-profit governance (such as national campaigns), champions and role models celebrated and any barriers to being involved removed (such as the costs of volunteering and negative stereotypes about what governance involves). If governance is more valued, it will be more widely invested in.
- **All board members should have a foundation level of understanding of their role and how to be effective.** This should take the form of accredited free training modules, expected of all new NFP board members. This already occurs for board members of schools in New Zealand and UK; take-up of initial training for school governors is high. The platforms used for school governors could be modified and expanded to include all NFP board members. As the literature suggests, the board's role in strategy should be included.
- **Get the right people on board matters.** Recruitment and induction of board members matters. There should be more support provided for boards to recruit widely based on skills and matching boards with diverse potential board members.
- **Invest in board processes.** Funders should consider investing in board secretaries to support multiple boards to operate efficiently and remove some of the administrative burden from volunteer board members. This can make board roles more appealing to volunteers

and good board processes, as the literature suggests, underpin governance performance.

Build a collaborative eco-system around NFP governance

Many professionals and adjunct organisations work with not-for-profit boards and can support their capability. Should these professionals and organisations work collectively with each other (such as government agencies and philanthropic funders having similar governance expectations of those they fund), systemic increases in governance capability across the sector can be expected.

- **Employers can support their staff in NFP governance roles.** Programmes where staff are supported to take up governance roles in their communities have shown to be successful and 'win-win' for NFP boards, board members and employers.
- **Government agencies (and councils in the UK) should incentivize good governance** through contract and accreditation processes.
- **Philanthropic funders should do as well** and consider funding governance development initiatives.
- **Those providing professional services to NFP boards** (such as auditors) can provide advice and guidance on good governance. This includes governance institutes, umbrella and member organisations and peak bodies.
- **Charity regulators have critical role in supporting good governance** that can be effective if they chose an educative as well as a policing role.

Focus on the leadership potential

If not-for-profit boards were supported to get the basics right by a collaborative eco-system, there exists much potential for them to generate expedient impact for communities.

Dass et al (2020)⁵¹ describe how not-for-profit boards traditionally perform two sets of responsibilities – one to meet their fiduciary and legal compliance duties (or what they term *Level 1 Governance: Duty and Fiduciary Responsibilities*); and second to monitor the organisation's performance (*Level 2 Governance: Organisation Mission performance*).

While both are critical, they make the point that we are not making enough progress on key issues (such as poverty, inequality, health) and, indeed, many indicators of social development are trending backwards.

⁵¹ https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3737045



Given not-for-profits critical role in serving communities, they argue that not-for-profit boards should be aiming for *Level 3 Governance: Systems Performance*. This would see not-for-profit boards, as well as focusing on the performance of their own organisation, seeing their role to also contribute to greater social impact; work that goes beyond organisational benefit to benefit communities.

Boards operating at Level 1 and 2 would ask questions like 'how well are we achieving our goals? What is the impact of our work for our beneficiaries?' 'Are we doing the right work for the problem we are trying to address?'

Boards operating at Level 3 would go further and ask, 'what have we done that will have lasting impact on our beneficiaries and their communities?' and 'what is and could be our organisation's contribution to the well-being of our communities?'

There is a lot at stake in getting the support for not-for-profit boards right. Should boards be supported with the basics and be able to effectively govern at Level 1 and 2, we release the potential that some boards will be able to move to Level 3 and in doing so, impact systems level change for communities.

CONCLUSIONS

This report has sought to understand the most effective ways to support governance development in the not-for-profit sector. Twenty experts were interviewed about their views of what is and could work.

There are systemic and cultural issues that will be hard to overcome, such as the lack of value attributed to volunteers and unpaid governance roles, the negative reputation of not-for-profit governance as all policy and regulations and the reluctance of funders to invest in not-for-profit 'overheads' like professional development.

However, what those interviewed shared was that there are already structures in place that are working (such as the modular training provided for school governors) that should be extended across all boards.

They identified that relationships based on funding and accreditation already exist that could easily be better used to incentivise good governance.

They thought that the many allied and adjunct professionals and organisations already supporting NFP organisations should take a more active interest in good governance.

The building blocks are all in place, and the stakes are high. When not-for-profit boards are supported to move beyond the basics of their governance role, into more impact leadership, the benefits to our communities will be immense.

APPENDIX 1: INTERVIEW SCHEDULE

Current / future context

- Pressures on NFP boards and individual members
- Opportunities for NFP boards and individual members
- Judgement: how well most boards and individual boards able to govern in current context
- Emerging / future pressures & opportunities
- What will be future demand on boards and individual boards
- How well are boards and individual boards placed to govern in the future?
- Where are the gaps

Environmental scan

- What is available now to support governance of not-for-profit organisations?
 - Sector level
 - Sub sector (i.e., sport / health / school)
 - Board level
 - Individual level

Developing board members – what works

- What works best an individual level – why?
- What works best at board level – why?
- What works best at sector level – why?
- What motivates boards and their members (individuals) to seek development?
- Role of compulsion (i.e., legislation / liabilities / as a condition of funding)?
- What works and why (time, venues, facilitator, group, individual)?
- What doesn't work – barriers to participation?
- What should development focus on?
- When best to invest (induction, new to board vs experienced / new to role vs new)?

What works for those groups currently under-represented in board roles?

- Who is least likely to access training and why?
- How best to build a pipeline of board members?

What works best for boards least served by development opportunities (i.e., small, and rural organisations)?

Board members as volunteers

- any thoughts on unique challenges of developing volunteer leaders?
- What do board members want from any development offered? What do they see the benefits?

Summary

What do you think are the key characteristics of effective development for NFP board members?

What should board development look like in the future?

APPENDIX 2: PARTICIPANTS

Kirsten Patterson	Chief Executive, Institute of Directors of New Zealand
Julie Hood	Governance advisor, Sport NZ
Shay Wright	Co-founder, Te Whare Hukahuka
Andrew Phillips	Manager Engagement and Business Improvement Charities Services, NZ
Cheryll Martin	Chief Executive, Volunteering Auckland
Garth Nowland-Foreman	Director, LEAD Centre for Not-for-profit Governance Leadership, New Zealand
Guy Beatson	General Manager, Governance Leadership Centre, Institute of Directors of New Zealand
Phil Butler	NFP Sector Leader, Australian Institute of Company Directors
Shamal Dass	Head of Philanthropic Services, JBWere Australia
Denis Moriarty	Chief Executive, Our Community, Australia
Sonja Hood	CEO, Community Hubs Australia; Board member, Institute of Community Directors
Dan Francis	Lead Consultant, NCVO, UK
Joy Allen	Director, Leading Governance, UK
Janet Thorne	Chief Executive, Reach Volunteering, UK
Penny Wilson	Chief Executive, Getting on Board, UK
Emily Dobson	Strategic Policy Advisor, Charities Commission England and Wales
Louise Thomson	Head of Policy (Not-for-profit) Chartered Governance Institute UK and Ireland
Rosie Chapman	Charity Governance Code, Chair 2016-2022
Dan Corry	Chief Executive, New Philanthropy Capital
Andrew Collyer	Advisor, National Leaders of (school) Governance, UK