Not-For-Profit Governance Principles

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Move Your Board Online
The Modern Easy-to-use Governance Portal
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START 30-DAY TRIAL
Intended Outcomes

- Better understanding of the 10 guiding NFP Governance principles
- A road map to stimulate discussion and planning within your organisation
Preamble

There is no one-size-fits-all approach to governance.

Consider your own circumstances in determining how best to develop a fit-for-purpose approach to governance.

Consider factors such as organisation size, purpose, and structure.

The AICD encourages users of the Principles to conduct regular performance assessments against them and to report outcomes.

Reporting annually on performance against the Principles provides a framework to communicate with stakeholders about their governance.
Not-for-profit Sector

(Source: Edelman, 2018 Edelman Trust Barometer – Australia Results, March 2018)
Governance refers to the systems that direct and control – or govern – an organisation.

“...the framework of rules, relationships, systems and processes within and by which authority is exercised and controlled in corporations. It encompasses the mechanisms by which companies, and those in control, are held to account.”

The Hon. Justice Neville Owen
If not, why not?
Principles

1. Purpose and strategy
2. Roles and responsibilities
3. Board composition
4. Board effectiveness
5. Risk management
6. Performance
7. Accountability and transparency
8. Stakeholder engagement
9. Conduct and compliance
10. Culture
Principle 1 - Purpose and strategy

The organisation has a clear purpose and a strategy which aligns its activities to its purpose.
Principle 1 - Purpose and strategy

The organisation has a clear purpose and a strategy which aligns its activities to its purpose

• 1.1 The organisation’s purpose is clear, recorded in its governing documents and understood by the board
• 1.2 The board approves a strategy to carry out the organisation’s purpose
• 1.3 Decisions by the board further the organisation’s purpose and strategy
• 1.4 The board regularly devotes time to consider strategy
• 1.5 The board periodically reviews the purpose and strategy
Questions for Directors

- IS THE ORGANISATION’S PURPOSE CLEARLY ARTICULATED AND COMMUNICATED TO STAKEHOLDERS?
- HOW DOES THE BOARD KNOW IF THE ORGANISATION’S ACTIVITIES ARE ALIGNED TO ITS PURPOSE?
- HOW FREQUENTLY DO THE PURPOSE AND STRATEGY NEED TO BE REVIEWED?
- HOW DOES THE BOARD ALIGN ITS DECISION-MAKING WITH THE STRATEGY?
- IS TIME SET ASIDE IN THE BOARD’S AGENDA TO CONSIDER STRATEGY?
Principle 2 - Roles and responsibilities

There is clarity about the roles, responsibilities and relationships of the board.
Principle 2 - Roles and responsibilities

There is clarity about the roles, responsibilities and relationships of the board

2.1 Directors’ roles are clear and understood by the board
2.2 Directors understand and meet their duties under the law
2.3 Directors meet any eligibility requirements relevant to their position
2.4 Delegations of the board’s authority are recorded and periodically reviewed
2.5 The role of the board is clearly delineated from the role of management
Questions for Directors

- Do directors understand and meet their responsibilities, including legal duties?
- Are the roles and responsibilities of the board and individual directors clear?
- Are any delegations of the board’s authority clearly recorded and regularly reviewed?
- Is there an appropriate separation between the role of the board and of management?
- Are directors subject to any eligibility requirements and are they continuing to meet them?
Principle 3 - Board composition

The board’s structure and composition enable it to fulfill its role effectively.
Principle 3 - Board composition

The board’s structure and composition enable it to fulfill its role effectively

3.1 Directors are appointed based on merit, through a transparent process, and in alignment with the purpose and strategy
3.2 Tenure of directors is limited to encourage renewal and staggered to retain corporate knowledge
3.3 The board reflects a mix of personal attributes which enable it to fulfil its role effectively
3.4 The board assesses and records its members’ skills and experience, and this is disclosed to stakeholders
3.5 The board undertakes succession planning to address current and future skills needs in alignment with the purpose and the strategy
Questions for Directors

- Is the process for appointing directors clearly defined, transparent and followed?
- What is the board’s current skills mix, and how is it communicated to stakeholders?
- Who will be leaving this board in the near-term future and is there a plan to respond?
- What skills will the board need in the future and how will they be accessed?
- What steps has the board taken to promote diversity?
Principle 4 - Board Effectiveness

The board is run effectively, and its performance is periodically evaluated.
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The board is run effectively, and its performance is periodically evaluated

4.1 Board meetings are chaired effectively and provide opportunity for all directors to contribute
4.2 Directors seek and are provided with the information they need to fulfil their responsibilities
4.3 Directors are appropriately inducted and undertake ongoing education to fulfil their responsibilities
4.4 The board’s performance, as well as the performance of its chair and other directors, is periodically evaluated
4.5 The relationship between the board and management is effective
Questions for Directors

- How well prepared are new directors to take on their responsibilities?
- Do directors have access to the information they need to make informed decisions?
- Is there a tone of respect and collegiality in board meetings?
- Do directors understand the delineation between the roles of board and management?
- What steps is the board taking, or should the board be taking, to improve its performance?
Board decision making is informed by an understanding of risk and how it is managed.
Principle 5 – Risk Management

Board decision making is informed by an understanding of risk and how it is managed

5.1 The board oversees a risk management framework that aligns to the purpose and strategy
5.2 Directors seek and are provided with information about risk and how it is managed
5.3 The board periodically reviews the risk management framework
Questions for Directors

1. Is the board aware of how risk is managed in the organisation?
2. Is there a shared understanding of the organisation’s risk appetite?
3. How often should the board undertake a review of the risk management framework?
4. Is the risk management framework aligned to the organisation’s purpose?
5. Does the board have access to external professional advice on risk management?
Principle 6 – Performance

The organisation uses its resources appropriately and evaluates its performance
Principle 6 – Performance

The organisation uses its resources appropriately and evaluates its performance

6.1 The board oversees appropriate use of the organisation’s resources
6.2 The board approves an annual budget for the organisation
6.3 The board receives and considers measures which evaluate performance against the strategy
6.4 The board oversees the performance of the CEO
6.5 The board monitors the solvency of the organisation
Questions for Directors

1. Is the board satisfied that the organisation’s resources are protected from misuse?
2. Is there an agreed definition of success for this organisation?
3. How well is financial and non-financial performance evaluated?
4. Do financial performance targets contribute to long-term organisational sustainability?
5. How does the board use performance information in its decision-making?
The organisation uses its resources appropriately and evaluates its performance
Principle 7 — Accountability & Transparency

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Questions for Directors

1. To whom is this organisation accountable?
2. What information do stakeholders/members need to hold the board to account?
3. How is reporting aligned to stakeholder/member needs?
4. How can members hold the board to account for its decisions?
5. What are the consequences for failing to meet member/stakeholder expectations?
Principle 8 — Stakeholder engagement

There is meaningful engagement of stakeholders and their interests are understood and considered by the board.
Principle 8 — Stakeholder engagement

There is meaningful engagement of stakeholders and their interests are understood and considered by the board

8.1 The board understands who the organisation’s stakeholders are, their needs and their expectations
8.2 The board oversees a framework for the meaningful engagement of stakeholders
8.3 Stakeholders are considered in relevant board decision making
8.4 There is a process for gathering and responding to complaints and feedback from stakeholders
8.5 The board oversees a framework for how the organisation works with and protects vulnerable people
Questions for Directors

- Who are the stakeholders of this organisation?
- How are the needs of stakeholders considered by the organisation?
- How do stakeholders perceive the organisation and what is the impact of this?
- How does the board access and respond to feedback from stakeholders?
- How are vulnerable people protected by this organisation?
Principle 9 — Conduct and compliance

The expectations of behaviour for the people involved in the organisation are clear and understood.
Principle 9 – Conduct compliance

The expectations of behaviour for the people involved in the organisation are clear and understood

9.1 The board articulates its expectations of conduct, and the consequences for misconduct, for the people involved with the organisation
9.2 The board oversees compliance with relevant laws, regulations and internal policies
9.3 Conflicts of interest are identified, disclosed and managed
9.4 There is a process for investigating misconduct and relevant instances are brought to the attention of the board
Questions for Directors

1. Are the behavioural expectations of the board clearly articulated?
2. What are the consequences for failing to meet behavioural expectations?
3. How effectively are conflicts of interest managed by the board?
4. How does the board respond to bad news?
5. What processes are in place to protect whistleblowers?
The board models and works to instil a culture that supports the organisation’s purpose and strategy.
Principle 10 – Culture

The board models and works to instil a culture that supports the organisation’s purpose and strategy

• 10.1 The board defines and models a desired culture that aligns to the purpose and strategy
• 10.2 The board oversees a strategy to develop and maintain the desired culture
• 10.3 The board oversees mechanisms to monitor and evaluate organisational culture
• 10.4 The organisation’s values are clear, periodically reviewed and communicated to stakeholders
• 10.5 The board oversees a framework for the reward and recognition of workers
Questions for Directors

- WHAT SORT OF CULTURE WILL BEST SUPPORT THE ORGANISATION TO ACHIEVE ITS OBJECTIVES?
- WHAT IS THE CULTURE OF THE ORGANISATION AND HOW IS THIS DISCERNED?
- HOW OFTEN DOES THE BOARD DISCUSS CULTURE?
- DO THE BEHAVIOUR OF STAFF AND VOLUNTEERS ALIGN TO THE ORGANISATION’S VALUES?
- HOW DOES THE BOARD ALIGN ITS DECISION-MAKING TO ITS VALUES?
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Links

Measure what matters – John Doerr
https://www.whatmatters.com/

AICD Not-for-profit Governance Principles
companydirectors.com.au/nfpprinciples

Connecting Up and Process PA -
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