



CERTIFIED GENERAL ACCOUNTANTS OF ONTARIO

Certified General  
Accountants  
Name Your Need



## Grassroots Governance: Governance and the Non-Profit Sector

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The Mission of the **Certified General Accountants of Ontario** is to ensure its members merit the confidence and trust of all who rely upon their professional knowledge, skills, judgment and integrity, by regulating qualification, performance and discipline standards for certified general accountants, while advocating the use of their professional expertise in the public interest.

The Association thanks Michelle Causton, FCGA, the author of this booklet's original text.

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*Grassroots Governance: Governance and the Non-Profit Sector*  
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ISBN 0-9690132-2-1

# Table of Contents

Introduction .....	5
Where to Start .....	7
Training .....	9
The Board of Directors .....	10
Measuring Success .....	11
Grassroots Growth .....	12
Founder's Syndrome .....	12
Transitioning .....	12
Whether or not to incorporate .....	14
Types of Boards .....	15
Collective Boards .....	15
Working/Administrative Boards .....	15
Policy Boards .....	16
Recap .....	16
Transparency and Accountability .....	18
Confidential or Secret? .....	19
In Camera .....	20
The Annual General Meeting .....	22
Preparing for the AGM .....	22
The Unwanted Question .....	22
A Test of Character .....	23
Accountability .....	24
Money Well Spent .....	25
From Volunteer to Employee .....	26
Conflict of Interest .....	27
Conclusion .....	28
Suggested Additional Reading .....	29
On The Internet .....	29
Books .....	29



# Introduction

Transparency and accountability are critical if the public is to continue funding the good work done by small, grassroots organizations. These are the organizations that raise money for victims of personal tragedy, take care of children in the community, provide support and advocacy for special interest groups, plus organize sports, theatre and arts events. They keep places of worship active and provide respite care for caregivers. What role do volunteers play in ensuring that the public trust is maintained?

Certified general accountants play a vital role in Canada's non-profit (NP) sector. They can lead in helping to ensure that these organizations, big and small, are well run and can withstand public scrutiny.

This booklet's objectives:

1. To help volunteers better understand their role in good governance.
2. To guide organizations in their desire to balance transparency and accountability.
3. To provide guidance to grassroots organizations as they grow and mature.

This booklet should be helpful to:

- Smaller, non-profit organizations that lack the formal support of paid employees.
- Employees and volunteers of mid-size NPs looking to provide greater clarity in their oversight.
- Larger, more established organizations that want a clear and simple reminder of the role of governance.



# Where to Start

In order to be a good board member, volunteers must have a reasonable understanding of the organization, what it attempts to do and their role within. Too often non-profit boards are so intent on finding volunteers that they forget to properly orientate and train the individuals. Unfortunately, this can lead to volunteer burn-out, as a volunteer tries to do everything. Other times it leads to volunteer apathy, in which a volunteer doesn't know what to do and so does nothing. A third scenario is volunteer schism, as a volunteer tries to take the organization places it never intended to go.

All organizations need a sense of identity, one that can be clearly stated and remembered. You can call it the mission statement, vision statement or simply the mandate. What is most important is that it provides definition and limits.

Of the two, limits may be more important. Grassroots organizations grow from the passion and commitment of a handful of people. They, being of like mind, know exactly what they want to do. When there are only a few of them, they understand limitations. So whether it is providing school supplies to underprivileged children in the neighbourhood, creating a theatre experience for the community or allowing teenagers to interact in a safe environment, the beginnings are modest and manageable.

By providing constraints to the mission statement, your organization can avoid mission creep. Mission creep is the tendency of NP organizations to grow their services or expand their geographic scope without careful planning,

Keep your mission simple. Often a great deal of time is spent trying to create a statement of beauty. It is much more important that it answer some or all of the following questions:

1. What do we do?
2. Who do we do it for?
3. Where do we do it?
4. How do we know we succeed?

*We provide a live, amateur theatre experience to the city of Whoville. We succeed when the Whoville Theatre averages 60 per cent capacity on average for each season.*

*We provide school supplies to needy children in the Whoville Public School District 45. We succeed when every student in the district who has been identified as at need has received two binders, a ruler, calculator, pens, pencils and a backpack.*

*We provide cold, portable school lunches to the students in grades one through five at Whoville Public School. We are successful when every child receives a meat or cheese sandwich, a piece of fresh fruit and a serving of milk.*

These examples may be simple; however, they demonstrate clarity and containment. The last example shows how the group can be saved from **the great idea**—we should provide homemade cake! The second example saves the board from **mission creep**—we should sponsor field trips! And the first example helps the volunteers avoid **visions of grandeur**—we want to be the Stratford Festival of Whoville!

This is not to say that these boards are hamstrung. Rather they need to make a conscious decision to extend their scope, which will hopefully lead to a discussion about relevant costs, additional fundraising, reporting requirements and the ability of volunteers to handle the additional work. If approved, the mission statement can then be modified to reflect the new reality.

Lynn Ann Lauriault is a non-profit sector specialist providing consultation in the fields of community development, planning, human resource management and organizational development. She was the executive director (ED) of Home Ownership Affordability Program (HOAP) in 2005-06 and the executive director of the Blue Sky Region Social Planning Council from 1998 to 2005. As the ED of Blue Sky Council she produced research reports and community action plans, co-ordinated conferences and workshops and facilitated the formation of several task forces.

With more than 15 years of active volunteering, Lynn Ann has a special interest in the governance of non-government organizations (NGOs). She has conducted numerous workshops and consulted with senior management and volunteers on issues as diverse as fiduciary responsibility, organizational design and strategic planning.

Lauriault feels that mission statements need to be well crafted in order to provide a frame of reference for the organization. Lauriault tells her boards to, “Do everything within the mission statement and nothing outside of it.” The board has a responsibility to set it, to make plans according to it, (plans that include measurable outcomes) and to periodically review and reaffirm or revise the mission statement. When the mission statement changes, it may also be necessary to change the governance model.

Good work is just that. It is nearly impossible to say “No” to more good work if the organization does not have a clear understanding of itself. A successful non-profit exists because of the passion and commitment of volunteers and donors. It is foolish and rude to impose on this generosity of the heart and spirit of a community.

# Training

A clear mandate helps attract new volunteers. Training will help keep them.

When recruiting new board members, beware of the temptation to snare just any warm body. A poorly constituted board will discourage the very type of volunteer that you need. Take the time to identify the qualities that you are seeking. Are there special skills or experiences that would be useful to the board and its work?

Lauriault tells us that the one thing that every non-profit organization needs to pay specific attention to orienting and training board members. The information may be out there, but many board members do not know what information they are missing and so are unable to self-train. Lauriault believes that training on **governance** and **management** issues helps both volunteers and staff better understand their individual and collective responsibilities.

She recommends developing a checklist of an organization's responsibilities. Board members should indicate who is responsible for each component and also determine whether he or she feel they have the knowledge or tools necessary for areas of personal responsibility. It's also necessary to identify gaps in knowledge.

In order to successfully recruit and train volunteers the organization should follow these steps.

1. Develop a profile of an ideal board member.
2. Create roles and responsibility profiles for board positions.
3. Create descriptions of the purpose of various committees.
4. Develop clear expectations and where possible, measurable outcomes.
5. Provide feedback.

## The Board of Directors

All non-profit organizations in Ontario are required by law to be governed by a board of directors that owes an obligation of trust to the organization's stakeholders. This is known as a fiduciary obligation. The stakeholders differ from organization to organization and can be as limited as its members or as broad as the general public. Persons benefiting from the work of the organization are stakeholders to whom a special obligation—both moral and legal—is owed. Stakeholders also include donors, sponsors and taxpayers who support the organization through government funding.

Charitable organizations are governed by specific laws and regulations. The directors of charities are accountable to the courts and to the Attorney General. Whether an organization is a charity is a question of fact and does not depend on whether they are tax registered. In common law a charitable organization is one that: provides relief of poverty; advances education; advances religion; or exists for other purposes beneficial to the community.

According to Canada Revenue Agency a *registered* charity must, in part, comply with the following in order to maintain its status:

- devote all of its resources to charitable activities
- operate for the benefit of the public, rather than for private gain
- follow the requirements of the Income Tax Act when issuing official donation receipts; and
- file a Registered Charity Information Return each year.

# Measuring Success

When success is measured by growth and more is always better, the organization can get caught in a vicious cycle of growth: which requires more money, allowing more growth and requiring more money. It is debatable whether an organization that spends 80 per cent of its resources (i.e., money and volunteer time) in the pursuit of donors is truly meeting the first requirement. Of course, if the fundraising efforts raise 10 million dollars, there is still \$2,000,000 available to the charitable endeavour.

The benefit to a NP in being authorized to issue tax receipts is unquestionable. Crystal-clear mandates can keep the organization from falling into the eternal quest for more money. Grassroots organizations are developing better business models, which is a good thing. The certified general accountant on board is often very helpful in providing management advice and a business perspective. Care must be given that the business model for growth and additional profits does not distract the NP from its original mandate.

An understanding of “how we succeed” is the first order of business. The organization needs metrics for success that are within its mandate: ones that are manageable and provide a sense of accomplishment to those involved. While dollars are the traditional metric they are not the only measure available. Volunteer hours, client satisfaction surveys, decline in negative outcomes, improvement in test scores—there are metrics for every occasion. Accountants involved in the NP can help determine the appropriate measure.

Non-profits succeed when they do what they set out to do within the constraints of budget dollars and volunteer time. For NPs there should be a clear sense of “good enough,” without the eternal need to do more. Perhaps it is as simple as acknowledging that there is always more that could be done, along with an understanding that it is unrealistic to expect to do it all.

## Grassroots Growth

Grassroots organizations are characteristically local and person to person; that is, hands on and less formal. Grassroots organizations grow, like grass, when the conditions are favourable. They flourish when they serve a local need and tap into a common belief. And like grass, a grassroots organization can, even with care, develop a few weeds.

In the early stages a few volunteers do whatever needs doing. Fundraising is local and personal: sometimes the money comes directly from the founders. Each volunteer is directly involved with the organization's cause and they feel useful, energized and powerful.

As the organization grows, so does the need for administration. The additional paperwork that comes with mandatory reporting does not provide the same sense of accomplishment. The work of the board and volunteers, by needs, must change.

### Founder's Syndrome

In the early stages, the board of directors (or founders) meet periodically and informally, to update each other on their activities. Overtime, as the organization grows, there are increasing pressures to run more formal meetings, with agendas and minutes. Interested individuals expect newsletters and up-to-date financial information. As new volunteers come along to fill some of the new roles, the founders may find themselves at odds with the new way of doing things.

In most organizations there comes a time when the founders must take on a new role. Ideally they will stay involved in an advisory capacity or on a committee that suits their interests. Sometimes it is necessary—for the continued growth of the organization—for the founders to step aside completely. Much like a parent letting go of a child, founders may have to be content with periodic updates and their pride in the success of what they began.

However, this may not occur spontaneously or painlessly. The founders may resist change. They may find that the more formal, larger organization is not as much fun or as rewarding. Other board members may feel bereft without the knowledge and experience of the visionary leaders.

### Transitioning

This transitional period is very difficult for the organization. The board may discover that it has insufficient documentation. As the founders step aside, a certain amount of history and how-to knowledge goes as well. It may be possible to formalize some of this before it is lost. In any event, now is when the organization must spend a disproportionate amount of time on administration, if it is to survive.

At this time the board may transition from a collective to a working board or some hybrid of its own choosing.

A cautionary note here: while many not-for-profit organizations *do* grow and expand their mandate, it is not absolutely necessary. It cannot be overstated: a clear mandate keeps everyone on the same page.

One organization that had formed to provide playground programs in the neighbourhood found itself with an enthusiastic new board member. Attracted by the success of the program and the local media coverage, the new board member wanted to expand the program to all playgrounds in the city. The board, in its collective wisdom, remembered the basic rules: know what we do and do it well within the limits of available resources. The board suggested that the new member would not be happy working within this limited vision. The board further suggested that if he wanted to create a similar opportunity for another playground it would provide support by way of sharing the lessons learned earlier. He declined to continue on the board. The board lost a board member but maintained its focus.

## Whether or Not to Incorporate

There are advantages to incorporating the organization. Because the corporation is, in law, a separate legal entity it is easier to enter into contracts and transactions, such as banking, borrowing or purchasing assets. Individual members are not personally liable, under certain conditions, for the debts and obligations of the corporation.

On the other hand, corporations in Ontario are subject to some supervision by the government and must conduct its affairs in accordance with applicable statutes. In Ontario, non-profit organizations incorporate under Part III of the Corporations Act as corporations without share capital. While there are five types of non-profit organizations, charitable organizations (one of the five types) are subject to more stringent reporting requirements and on dissolution must distribute any remaining assets to other charities and not to its members. The other types may distribute net assets to members, on dissolution, subject to the organization's bylaws.

The corporation must file an Initial Return within 60 days of incorporating and then file a Notice of Change (including changes in the board of directors) within 15 days of such changes taking place. Occasionally the Company's Branch will send out a Special Information Notice. This must be completed and returned within the specified time limit.

Charities and organizations that receive government funding or subsidies will have additional reporting requirements.

Specific information regarding reporting and other regulations affecting not-for-profit organizations in Ontario can be found at the Ministry of the Attorney General's website: [www.attorneygeneral.jus.gov.on.ca/english/family/pgt/nfpinc/generalinfo.asp](http://www.attorneygeneral.jus.gov.on.ca/english/family/pgt/nfpinc/generalinfo.asp).

# Types of Boards

## Collective Boards

In the early stages of a grassroots organization the structure is usually that of a collective. A collective board has no management hierarchy. Board volunteers (and staff, if any) share responsibility for all facets of the organization.

The collective comprises like-minded and enthusiastic individuals, working towards a common goal. While this may sound ideal there is a tendency to become cliquish as the organization grows. Often informal hierarchies occur. If everyone is responsible, then no one is responsible...and work may not get done.

The collective board must be vigilant to avoid “group think,” wherein the group makes decisions that the individuals may not support.

## Working/Administrative Boards

As the organization grows, the next stage is usually that of a working board. Often there is no executive director or chief operating officer, meaning the chair of the board generally takes the lead role. At this stage, various committees are formed drawing on a larger body of volunteers. The board is responsible for providing direction, often in the form of a more formal strategic plan. Budgets become part of the formal planning of the organization.

If the organization has employees, there is often confusion as to who is responsible for what. At this stage it is appropriate for the board to be involved in administration as well as policy. Clear roles and responsibility guidelines are useful but must be flexible.

The board should develop board orientation material, a code of conduct, and clear conflict of interest guidelines. While legal opinion is useful, there are many resources on the Internet to ensure the board is on the right track.

At this stage the organization usually needs and seeks out specific financial expertise. In addition to assistance in budgeting and financial reporting, the organization will benefit from more formal controls and specific analysis of operations.

The working/administrative board demands a lot from its volunteers. During the attraction and training phases, it is important to provide clear expectations of board member involvement. It does no one a favour to pretend the commitment is only for a two-hour meeting once a month, if the expectation includes fundraising, committee work, administration and attendance at events.

## Policy Boards

Many grassroots organizations never move beyond the working board model. Often there is no need to do so. However, when there is sufficient growth and more employees the policy board becomes the appropriate model.

The policy board has its primary responsibilities in: developing a strategic plan and budget; creating appropriate policies; and ensuring adequate procedures are in place for the successful implementation of the plans. The board increasingly takes on an oversight role.

The board is responsible for hiring and supervising an executive director (or similar position). This person is responsible for further staffing, as needed.

Usually there will be a number of committees composed of board members and non-board members, as determined by the board. The board often retains responsibility for advocacy and public affairs. As well, the board is responsible for the finances of the organization, although it may delegate the day-to-day finances (or any other responsibility) to staff, with an appropriate reporting mechanism.

It is important to remember that while it is possible to delegate to staff, the ultimate responsibility remains with the board of directors.

There needs to be a clear delineation of board and staff responsibilities, vis-à-vis authority. There is no universal answer to this question; therefore, the board must take care to ensure they are not micromanaging operations. Equally dangerous is standing so far back as to lose sight of what is going on.

**The Carver Model** is a specific type of policy board. It is officially known as the Policy Governance© model. In this model, the focus is on accomplishing the purpose of the organization. The only limits placed on staff are those that would violate the board's stated standards of ethics or reasonableness.

Critics of this model admire its clarity of purpose and focus, but caution that it requires a strong board to ensure that authority is not completely delegated to staff. The senior staff position must be completely in tune with the mandate and direction of the board, unless he or she subverts the organization to a personal agenda. Ultimately, responsibility remains with the board, so it must avoid the temptation to let the executive director or CEO have too much rein.

## Recap

Different models and variations of models are appropriate at different times in an organization's life cycle. The board must periodically review its own structure to see if it remains appropriate. The various models should not be seen as absolute options; more aptly, they should be viewed as points along a continuum. The board must document how it will govern, who is responsible for various tasks, the degree of authority, and the range of influence. This information should form a section of an organization's manual and orientation for new members and employees. The governance model should be uniquely appropriate to the organization.

As well, individual board members should periodically review their own involvement, in order to ensure that there is a continuing "good fit" as the organization evolves.

Lauriault notes that as volunteer organizations grow, there is a danger that volunteers will lose sight of the big picture and their role in it. Instead they get caught up in "just doing it." Lauriault defines governance as, "Having the appropriate model for decision making." She says that no one model fits all. The Carver Model presumes knowledgeable staff and a strong board, either of which might be missing in grassroots organizations. As a result, a working board may be a more appropriate model.

Transitioning is always difficult. Roles and responsibilities are redefined. Individuals find that what they were doing in the past is no longer required or valued; they are unsure of the new expectations. Properly managed the transition provides opportunity for renewed vision and energy as resources are realigned and expectations reviewed.

# Transparency and Accountability

“Transparency” and “accountability” are two buzz words of board involvement. Simply put, transparency allows those outside of the organization to see what is going on. It provides a window to the processes and procedures. Transparency suggests that the board operations should be open and visible to interested parties. Decisions and actions should be reported to stakeholders.

Accountability demands that someone be responsible. The board members need to understand where their responsibilities, duties and obligations lie. They need a clear picture of the scope and limit of their authority. While a board should have liability insurance that limits their financial liability, there are some financial responsibilities that cannot be avoided. For example, individual board members may be held responsible for the failure to remit payroll taxes, unless they can demonstrate that there were reasonable controls in place that were usurped. Both reputable websites and legal counsel can provide detailed information about these basic responsibilities.

Insurance and legal counsel cannot replace a sense of moral responsibility. They can, however, diffuse the sense of accountability and allow the board to develop “group think.” There is danger in the collective thinking of a board, whereby individual members know they will not be personally liable: where they can speak with one voice that is not their own.

Accountability demands that each board member keep in touch with his or her own sense of ethics. Boards must create and nurture a special type of trust, one that allows their members to discuss and debate in a courteous yet vigorous manner. Individuals must feel that their opinions matter. Decisions must truly be that of the group and not driven by one or two powerful members. In the end, board governance requires that each board member supports the collective decisions of the board and will not speak out against them, publicly. At the same time, morality requires that each board member maintain his or her own sense of ethics.

An individual who finds him or herself truly at odds with a group decision must find a way to balance the conflict. For example, it is right to speak with one voice and support the decisions of the board. It is also right to support the minority position or to speak out. Which holds more weight in terms of actions is a personal decision. If a board member feels very strongly that the new logo should be blue, but the board voted for green, then good governance demands that the dissenter support the colour choice. However, if the board has voted to hire the brother-in-law of the chair, and the individual board member has not been persuaded through debate and discussion as to the appropriateness of this action...well, then the board member has an ethical dilemma.

Resolution of such a dilemma is not easy. Board business, in general, should not be discussed with outsiders. Check with your professional organization to see if they offer guidance in these matters.

Good governance is all about accountability, transparency and integrity.

## Confidential or Secret?

Everyone understands the need to maintain confidentiality regarding board business; however, when confidentiality feels oppressive or when the board feels as though it is working under a cloak of darkness, there is a need to differentiate between confidentiality and secrecy.

Something is confidential if the broad dissemination of the information would harm the organization, compromise strategic plans, disclose personal information or impact on competitive advantage. Details, documents and discussions are most often considered confidential. Board members, staff and volunteers should not discuss these items with outsiders and should use care in discussing amongst themselves if there is danger that others may overhear. The organization or association makes the decision that something is confidential. Individuals must, as part of their duty to the organization, comply.

That seems simple enough. All knowledge obtained by virtue of being a board member is confidential. However, there is a potential for things (i.e., questionable actions), to be done under a cloak of confidentiality. After the fact, when things go wrong, confidentiality may suddenly appear to be a cover-up. Board members see their names in the headlines along side the banner: **Directors Knew But Did Nothing**

Secrecy hides rather than protects. After all, most would agree that a public disclosure of the carefully crafted new marketing strategy might result in the loss of a competitive edge. That the new marketing firm is owned by one of the directors should not be confidential—an attempt to keep that information secret is an attempt to avoid accountability. Legal proceedings are confidential—often by law—and a premature public discussion could disrupt the careful balance of negotiation and bring harm to the organization. But if the treasurer is being investigated for criminal wrongdoing legal advice should clarify when and how this information can be made available to stakeholders.

It is easy to avoid disagreement, discussion and debate with stakeholders by playing the confidentiality card. However, the board must consider the harm that can come to the organization when stakeholders feel, even erroneously, that they are being kept in the dark. In fact, it is often when something unusual is happening that there is the greatest need for a careful balance between transparency, disclosure and confidentiality. When volunteers and other stakeholders are concerned, when they feel that they are not being given enough information, there is a tendency to fill the information gap with rumours and speculation.

The area of human resources is often clouded in an aura of secrecy. As regards non-profit organizations, human resources includes the processes by which board

members are vetted, evaluated and promoted to executive positions as well as the hiring, monitoring and dismissal of both volunteers and staff. While it is very clear that personal information must be kept confidential the evaluation processes must be clear and unambiguous if the board wishes to avoid being charged with favouritism or cronyism.

The responsible parties should spend time determining the processes and evaluations they will use and this information should be available to interested parties.

### **Minutes of the Meeting**

The minutes of meetings are the primary means of communication between the board and stakeholders. Minutes record the fact that an agenda item was discussed, documentation was received and reviewed, a vote was taken and a decision made. This is necessary to satisfy the governance mandate for transparency and accountability.

The details of the discussion—such as who said what and, in most instances, the split of the vote—are not disclosed. Reports may or may not become part of the public record. Even the names of the persons who move and second a motion do not have to appear in the minutes. In this way confidentiality is maintained. Stakeholders' interests are satisfied by the transparency of the process.

### **In Camera**

*In camera* (literally “into chambers”) is sometimes used to discuss sensitive or “top secret” issues. As well, the board may move *in camera* when they wish to discuss something before a motion is brought to the table. Organizations should document the process they will follow for *in camera* sessions.

The usual process is:

- guests and other non-board members must leave
- the minutes of the *in camera* session are only made available to persons eligible to attend the meeting; however, they are retained by the secretary or other designated individual
- attendees and those who read the minutes are deemed to have agreed to maintain the confidentiality of the session
- any actions taken *in camera* must be reported when the normal meeting reconvenes
- all other processes and procedures are those of regular meetings

In exceptional circumstances, the meeting participants may formally agree that it is in the best interest of the organization to not report actions taken *in camera* in the minutes. This decision should be documented in the minutes. The end result should be that any stakeholder will find enough information in the minutes to

satisfy themselves that the processes were sound. They have the right to challenge the reasons for moving *in camera*, the actions taken *in camera* (or the non-disclosure of actions) at the annual general meeting.

All boards have a duty of care which can best be understood as conducting the business of the organization as though it were your own. This includes safeguarding the assets. We intuitively understand the need to protect the money; however, assets includes those things that accountants identify as having a lasting benefit or ones that result in the avoidance of future expenditures.

Volunteers are among the most important assets in non-profit organizations. Their countless hours of donated time and their passion and commitment are critical to the well-being of the organization. Their contribution is not quantified, it does not appear on the balance sheet, nor does it show up as expenditure. But the value of their commitment can be compromised. When a board fails to provide transparency in the processes it uses to conduct business—or when it seeks or appears to avoid accountability—there is a real danger of losing the trust and confidence of volunteers.

The dynamic interaction of the duties of safeguarding assets, providing transparency and being accountable demands a clear understanding of the differences between confidentiality and secrecy.

Definition of confidentiality:

1. Confidentiality prevents undue harm to the organization and its assets, including volunteers, board members and staff.
2. Confidentiality is reconcilable with transparency; in effect, stakeholders are allowed to know enough.
3. Confidentiality is reconcilable with accountability, wherein stakeholders can question the processes and the outcomes.
4. Confidentiality requires, but does not strain, trust.

Definition of secrecy:

1. Secrecy attempts to protect someone or something from scrutiny. This means secrecy cannot be reconciled with transparency.
2. Secrecy attempts to prevent accountability.
3. Secrecy demands, and then misuses, trust.

In general, a reasonable person should be able to satisfy him or herself as to the need for confidentiality. A prudent board member will ask, “Why must this be kept confidential?”

# The Annual General Meeting

Often the annual general meetings (AGM) of NPs create anxiety, and probably with due cause. It is a strange hybrid of business meeting and stage show. Properly conducted, a board will have “an audience” of interested stakeholders. These people expect to see a well-run meeting; hear a recap of the activities of the board and the organization itself; review the financial information; and be given the opportunity to ask questions, in order to demand accountability.

In preparing for an AGM the board should remember that often this function or channel is the primary communication tool between the board and its stakeholders. Likely other communication during the year has been one way, i.e., from the board to interested parties. Although this form of communication is useful, minutes of the meetings, newsletters and other updates do not invite comment. Additionally, stakeholders may have communicated with staff or individual board members, but have not really had the opportunity to hear and be heard.

## Preparing for the AGM

Incorporated non-profit organizations are required by law to hold an annual general meeting. Ensuring that this statutory business has been properly disposed of is part of good governance.

The purpose of the AGM is to:

- read and correct the minutes of the previous AGM
- approve the audited financial statements including reports to the board
- receive committee reports not included in the financial statement
- approve amendments and additions to bylaws
- call for nominations to the board and/or receive the report of the nominating committee
- elect new directors
- elect the auditor
- transact any other business

This meeting should be planned down to the last detail; in fact, many boards prepare scripts to help ensure that every relevant area receives attention.

## The Unwanted Question

Every board worries about how to deal with disappointed, disgruntled, concerned and angry members. Almost all boards will have to make decisions that do not meet with 100 per cent approval.

Nothing strikes more fear into the heart of a board than knowing that one or more of the actions taken during the year has caused concern or dissension among the stakeholders. However, during the debate and discussion, one hopes that these concerns are addressed. As a result, the board should be willing to both explain the

process(es) used and defend the conclusion(s) reached. These are the acts of transparency and accountability.

A paternalistic attitude, one that demands members trust the board to do what is right, is an outdated and dangerous concept. The board should welcome the scrutiny: it is a clear demonstration that the processes are working as they should.

## A Test of Character

That some will disagree with board conclusions is inevitable. How the board deals with this is a true test of the board's and individual board members' character.

1. Assume that the member who raises the issue has the best interest of the organization at heart. You may suspect that he or she is just a rabble-rouser, but even if you are correct there is no benefit in simply shutting down the question.
2. Do not "over answer" the question. There is a tendency for board members to give more information than is necessary. The result is an appearance of nervousness, one that causes new questions to pop into people's minds. Simply answer each question honestly and succinctly. Allow the audience to ask for more information if they wish. This is not a suggestion to evade the question or to provide terse and taciturn answers. However, too much information is as bad as too little. It is often confusing and fails to respond to the initial question.
3. Do not assume a question is a challenge. It may simply be a request for additional information or confirmation of a belief. Form your answer accordingly and let the questioner follow up if they wish. (However, avoid engaging in a dialogue with a persistent questioner.)
4. Clarify the question. Listen carefully to the question, then repeat it in your own words, in order to ensure you are responding to the correct cues. The onus is on the board member to determine the question and not on the stakeholder to craft it well.

A member of an organization asked, "Is our monthly dues increase in line with similar organizations?" The board member responded, "We are under financial pressures. There were unexpected expenditures last year resulting in a deficit. We cannot hold the line any longer. We know our members can afford the increase and if they care about the quality of the programs they will not question the need."

Not only was the original question not answered (i.e., a simple yes or no would have sufficed), but the responder created a sense that the organization did not have a good planning process. Further, the responder seems to have chastised the member for asking the question.

The questioner might now respond passively – by withdrawing, or aggressively – by repeating the question or demanding more in-depth answers. In either case the issue is not properly addressed.

Information dissemination is an art form. When preparing information to present to the board do not cloud issues by providing irrelevant or superfluous information. If you want to change the wording of a bylaw, present the current wording, the proposed wording and the rationale for the change. Do not provide all of the bylaws unless you want to be sidetracked into answering questions about bylaw areas not under discussion.

## **Accountability**

The AGM is the primary mechanism by which the board is held accountable. It may be very uncomfortable to be—or feel to be—challenged, given the hard work and careful thought that went into the processes. However, the board members need to remember that questioning is a sign of an active membership: a membership or group of stakeholders that cares. From the board members perspective it may seem that the stakeholders are reserving the right to complain after someone else has done all the hard work. And that is exactly the way it is intended to be: it is a process that validates good governance and gives pause for reflection.

Of course most AGM's proceed as planned, with few questions or comments from the stakeholders.

However, red flags should go up if too few attend the AGM or if the involvement is lacklustre. These may be signs of stakeholder apathy.

Sometimes a quiet and not overly involved stakeholder group is actually a signal that all is well and that constituents do not feel the need to comment. However, the board should actively seek feedback in order to satisfy itself that it is both transparent and accountable and has not somehow lost the support of its stakeholders.

# Money Well Spent

In order to ensure the continuation of an organization that relies on volunteers and/or donors, there must be public trust. When the stakeholders perceive that the organization is not fulfilling its mandate, if they believe that they are being misled or that the money is not being used wisely, they will vote with their pocketbook and with their feet.

Long before donations dry up an early sign of trouble may be difficulty in recruiting and retaining volunteers. Board turnover may signify that the organization:

- has lost sight of its mandate
- has failed to organize itself in a meaningful way; or
- is not conducting business in a way that inspires trust and confidence

When there are insufficient volunteers to carry on operations, it may signify a lack of organizational structure (e.g., deficiency in training or failure to support, guide and recognize volunteers). Scheduling volunteers is no less arduous a job than scheduling employees. Care must be taken to inventory volunteer skills and level of commitment, in order to create the best match of volunteer to task.

Or a shrinking inventory of volunteers may be an indication that the organization has become a victim of mission creep. Expecting too much of volunteers is as inappropriate as overspending the budget.

Back filling a budget with donations that do not mirror previous levels of support is dreaming with numbers. Nonetheless, many an organization has approved a budget that would require Herculean fundraising efforts. Much time and effort have gone into envisioning the work that will be done, the people who will be served and the programs that will be delivered. It is easy to respond to the ever-greater needs. But when the revenue side is examined the only variable is the magic, unquantifiable dollar amount called “donations.”

Fundraising is difficult and time consuming. One grassroots organization was considering the work that would go into a fundraising exercise—one that would, at best, raises \$1,000. A director astutely noted, “Couldn’t we just each write a cheque for \$100?” Indeed, that might be a better solution.

Corporate donors are the angels of the non-profit world. Tapping into a corporation’s generosity allows the NP to do wonderful things; likewise, the corporation can help fulfil its corporate social responsibility mandate. Still, attracting and retaining corporate sponsors requires skill, time and effort. From a corporation’s view point, the philanthropic gesture must still serve a business purpose. The corporation wants its name associated with an organization that is delivering what its mandate promised and one that dovetails with its own corporate vision.

Along with determining the cost of delivering the programs and/or services, the non-profit needs to quantify the required volunteer hours. Volunteer hours are an asset and should be assessed on an ongoing basis. While you have less control over this resource, it remains the board's responsibility to safeguard it. That means that volunteers should not be overextended and that commitments should not be made for volunteer hours that do not exist.

Poor budgeting for dollars will result in more demand on volunteers. The certified general accountant on board can help provide clarity and sanity to the budgeting process.

As an organization grows it is critical that it develop, review and revise roles and responsibilities. A forward-looking board should envision which duties should be performed by staff, even if the finances preclude the hiring at this time. During the budgeting process consideration should be given to the possibility of filling the positions so identified.

## **From Volunteer to Employee**

As an organization grows it will often begin to access public funds in the form of grants and subsidies from the federal or provincial government. In making their submission the organization may make a request for funding to support the hire of an executive director (ED) or other administrative position.

The question will arise as to whether the person who has been filling this role in a volunteer capacity should automatically become the paid administrator. While it may seem a reasonable reward for years of hard work, from the perspective of good governance the answer is no.

It is not reconcilable with the notion in common law that charitable organizations do not seek private gain. Externally it appears that someone has created a job for him or herself, and that they have undue influence on both the conditions of employment and the remuneration.

The board should establish a hiring policy at its earliest convenience, in advance of the need or necessity to hire. The process should be available to all interested parties. No matter how small the organization it is never too small to have good policies and procedures. While the board may truly believe that the person who has been chairing the organization since its inception is the absolute best person to fill the role of executive director, the donors and other interested parties may not agree. The board needs to be able to explain the process (transparency) and withstand scrutiny (accountability).

Good governance demands that board members act gratuitously. There needs to be a clear distinction between the board of directors and staff for the balance to be maintained. There is also a requirement in common law for charitable organizations to operate for the benefit of the public and not for private gain. In the event that the former chair, through appropriate processes, becomes the ED it is very important that the board clearly understands the new roles and accountabilities.

## **Conflict of Interest**

While most people say they understand conflict of interest, most people cannot articulate a clear and general statement. They may be able to give extreme examples but cannot identify potential conflict in more mundane circumstances.

A useful way of looking at conflict of interest is to turn it around and say that directors should avoid any self-serving conduct. If it benefits the director then the action is suspect. Most theorists allow that if the action benefits everyone in the community then it is not self-serving. So, a director may, in clear conscious, vote in favour of a dues reduction, knowing that all members, including herself, will receive a benefit.

What if the benefit accrues only to all board members? While it seems to meet the test of communal benefit it also seems that the community is not broad enough. It is not impossible for the board to vote in favour of something that benefits only the board members; however, such motions deserve additional discussion and a higher standard of care.

In order to help the board of directors understand and avoid conflicts of interest the board should develop or adopt a written expression of its intentions. Board members should remember that a written code serves as a guideline. It cannot replace careful consideration and an ethical approach.

## Conclusion

Governance for the small, non-profit organization need not be a cumbersome and formal burden. Good governance can be maintained by finding a balance between individual good sense and organizational guidelines. Here are the basics:

1. Know the mandate of the organization, both its vision and its limits.
2. Work within the mandate achieving the organizational goals within the confines of dollars and volunteer hours.
3. Create formal guidelines that express the common beliefs of the directors, who stand in proxy for the stakeholders.
4. Define individual expectations.
5. Clarify roles and responsibilities.
6. Ensure the resources are in place, including financial, human and structural.

In the pursuit of good governance, it is easy to become overwhelmed. There is a tendency to lose sight of the objective when one is inundated with policies, guidelines, best practices and documentation. Remind yourself that these are tools to assist and should not be more than the task requires. The larger and more formal the organization, the greater the need for formal guidelines. Never assume that everyone understands what appears to be obvious. Discussion and debate often expose vast differences of opinion. This can lead to the crafting of a common expression.

Governance is all about taking care of money and resources that are held in trust for someone else. In simple terms: it's not your stuff.

Lynn Ann Lauriault reminds us, "It's all about leadership. All directors must assume a leadership role. They must understand the organization, their role within it and how the decisions made effect their constituents."

Guidelines and written rules of conduct, plus reporting and performance metrics, can never replace individual care and attention. In the end it comes down to this maxim: we do good when we do it right.

# Suggested Additional Reading

## On The Internet

### **Fundamentals of Effective Board Involvement**

Mentoring Canada

[www.mentoringcanada.ca/training/Boards/index.html](http://www.mentoringcanada.ca/training/Boards/index.html)

### **Seven Steps to Effective Board and Director Evaluations**

By Kiel, Geoffrey, Beck, James

[www.allbusiness.com/management-companies-enterprises/4003483-1.html](http://www.allbusiness.com/management-companies-enterprises/4003483-1.html)

### **How to develop a Competitive Analysis**

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[http://resources.tnpr.ca/TopicAssets/1000/how\\_to\\_develop\\_a\\_competitive\\_analysis.doc](http://resources.tnpr.ca/TopicAssets/1000/how_to_develop_a_competitive_analysis.doc)

### **Don't Make Your Organization's Statement of Purpose a "Mission Impossible"**

Fund-Raising Forum

[www.raise-funds.com/1101forum.html](http://www.raise-funds.com/1101forum.html)

### **Board Development**

United Way of Canada

[www.boarddevelopment.com/role.cfm](http://www.boarddevelopment.com/role.cfm)

### **The Canadian Code For Volunteer Involvement**

Volunteer Canada

<http://new.volunteer.ca/en>

### **Discussion Paper on Board Accountability**

By: Susan FitzRandolph

For: Volunteer Action

[www.lin.ca/resource/html/accapdx1.htm](http://www.lin.ca/resource/html/accapdx1.htm)

### **What are the general requirements for a registered charity to maintain its registered status?**

Canada Revenue Agency

[www.cra-arc.gc.ca/tax/charities/donors/regulation/4-e.html](http://www.cra-arc.gc.ca/tax/charities/donors/regulation/4-e.html)

### **Primer For Directors of Not-for-Profit Corporations**

[http://strategis.ic.gc.ca/epic/site/cilp-pdci.nsf/vwapj/Primer\\_en.pdf/\\$FILE/Primer\\_en.pdf](http://strategis.ic.gc.ca/epic/site/cilp-pdci.nsf/vwapj/Primer_en.pdf/$FILE/Primer_en.pdf)

## Books

### **Managing The Non-Profit Organization**

Peter Drucker

# Other Resources from the Certified General Accountants of Ontario

## Other Booklets in This Information Series

- ABCs of Accounting: Accounting Definitions
- Effective Planning to Achieve Goals
- Executorship: A Guide for Those Called Upon to Act as an Estate Trustee
- How to Conduct a Meeting
- Keeping the Record Straight: Accounting for Not-for-Profit Organizations
- Resource Guide for Business Immigrants to Ontario

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[www.cga-ontario.org](http://www.cga-ontario.org) or  
[www.nameyouneed.org](http://www.nameyouneed.org)

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