Lead or be led: Time to take advantage of the new business reality

Selected issues for boards of directors of not-for-profit organizations
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Each year, Deloitte publishes *Directors’ Alert*, an annual review and discussion of the top issues identified by directors as being most likely to impact their organizations in the coming year. To complement that publication, Deloitte has published this inaugural edition of *Selected Issues for Boards of Directors of Not-for-Profit Organizations* to focus more closely on some key issues facing them and their organizations.

Not-for-profit organizations ("NPOs") play an important role in our society, delivering a wide range of services across a variety of different industries. Although they often face the same or similar challenges as for-profit entities, they must address other issues that are unique to NPOs. At times, they may find themselves in direct competition with for-profit business, such as when recruiting top talent with the skills and expertise to enable them to achieve their mission, which we discuss in this publication.

Other topics examined in this publication include the changing NPO regulatory environment resulting from the new federal Not-for-profit Corporations Act, the *Personal Information Protection and Electronic Documents Act* and Canada’s Anti-Spam Legislation. Some NPOs may need to revise their strategies in light of these new rules while others may choose to do so in order to take advantage of new technologies, such as social media, to better communicate with stakeholders, build community support, and more.

This publication examines these and other top challenges likely to face NPOs and their boards of directors in the year ahead, as identified by Deloitte professionals who work with not-for-profit organizations and many are NPO directors themselves, some of whom have provided their own recommended best practices, which we have included in this publication with their permission.

Each article includes questions that directors may ask to further explore the issues with their own boards and of management. In addition, articles are supported with tools and resources so directors can “dig deeper” to broaden their understanding of the issues and improve their board’s effectiveness in dealing with them. These additional resources can be obtained by contacting your Deloitte partner or one of the experts listed at the end of the publication.

The purpose of this publication is not to provide solutions to the issues discussed. The best approach for any organization will depend on its own particular circumstances. Our objective is to assist directors in identifying the issues of importance to their organizations, and to help promote boardroom discussions around the strategies and options management has put forward to address current and future challenges, mitigate the risks, and seize the opportunities that lie ahead.

The boards that lead rather than being led, will be the ones that have successfully adapted strategies to turn those challenges into opportunities and leverage compliance requirements to make innovative developments.
Regulatory

Are we ready for the new regulatory environment?

New governance regulation

The introduction of the new Canada Not-for-profit Corporations Act (the “new Act”) may require NPOs to make changes to their letters patent, bylaws and governing documents.

Impacted NPOs must complete their transition to the new Act by October 17, 2014 or they may be dissolved. Since the new Act contains different rules than the Part II of the Canada Corporations Act, NPOs need to review their letters patent because additional information is to be included in the articles of continuance. They may also need to review and amend their bylaws to comply with the new Act. For example, the new Act contains different rules regarding members and membership rights and directorship appointments.

The new Act classifies NPOs as either soliciting or non-soliciting corporations and then as either designated or non-designated corporations.

An NPO is considered to be a soliciting corporation when it receives more than $10,000 in income from public sources in a single financial year. Public sources include gifts or donations from non-members, grants from government, or funds from another corporation that also received income from public sources. A soliciting corporation must:

• Have a minimum of three directors, at least two of whom are not officers or employees of the corporation or its affiliates
• Comply with the requirements for public accountants and financial review that relate to soliciting corporations
• Send financial statements and the public accountant’s report, if there is one, to the Director of the New Act
• Include a provision in its articles that requires any property remaining after liquidation of the NPO to be distributed to a “qualified donee,” as defined in the Income Tax Act, and
• Not have a unanimous member agreement.

The Act creates a second division, based on an NPO’s gross annual revenue, which dictates the required level of financial review. NPOs must appoint a public accountant to conduct an audit engagement unless they are classified as a designated corporation, which may choose to have an audit engagement or a review engagement or not have a public accountant at all. When the organization appoints an auditor, it must have, at a minimum, a review engagement. An NPO is a designated corporation when it is:

• A soliciting corporation with gross annual revenues for its last completed financial year that are equal to or less than the prescribed amount ($50,000), and
• A non-soliciting corporation with gross annual revenues for its last completed financial year that are equal to or less than the prescribed amount ($1,000,000).

Other rules, including requirements related to directors and their independence, also differ depending on an NPO’s classification.
New accounting standards

A new set of accounting standards for NPOs was introduced in 2010. While management is responsible for transitioning to the new rules, boards should inquire about the progress the NPO is making and the impact the new rules may have on the organization and its operations. In situations where the NPO has choices – for example, deciding which accounting standards to adopt – boards should ensure that management considered all of the appropriate factors when making its decision. If problems were encountered, management should explain them and how they were resolved.

In April 2013, a proposed Statement of Principles was released by a Joint Not-for-Profit Task Force to help NPOs better meet financial statement users’ needs. The Statement of Principles contains 15 proposed principles covering topics such as contributions, tangible and intangible capital assets, works of art and controlled and related entities. They will be of varying interest to NPOs, depending on the nature of the organization, its particular circumstances and whether it is in the private or public sector.

Many of the proposed principles may result in significant changes in financial reporting by an NPO. The development of future standards for NPOs will take into account comments received about the effect the proposed principles may have and the quality of the information they provide to users of their financial statements. Directors and management should ensure they understand how the proposed changes would affect their organizations. Where proposed principles may produce undesired effects or if supplementary guidance would be warranted, a comment letter should be sent to the Accounting Standards Board no later than September 15, 2013.

Questions for directors to ask:

• Is our organization on track to transition to the new Canada Not-for-profit Corporations Act by October 17, 2014? What do we have yet to do in order to complete the transition? What is management’s game plan and timetable for completing these outstanding items?
• Is our organization classed as a soliciting or a non-soliciting corporation and as a designated or non-designated corporation? Do we understand all of the rules that will apply to our organization based on its class, including those related to the required level of financial review?
• How much money do we expect to receive from public donors and government? Is our organization likely to be classified as a soliciting corporation? Should our organization continuously adhere to the rules governing soliciting corporations or alter its governance structure and documents as needed depending upon its annual classification?
• Do our audit committee members understand the new accounting standards? Should we arrange for board and audit committee education sessions with a specialist?
• Does the board understand how the change in accounting standards may affect the usefulness of the financial information? Should the board plan any communications to our stakeholders to help them understand the new standards? Do these changes affect our other required reporting, such as to the Canada Revenue Agency?
Strategy

Is it time for a strategy overhaul?

Every organization should review its strategic plan and make adjustments when necessary. Given the changes occurring in the not-for-profit environment, such as the transition to the Canada Not-for-Profit Corporations Act, the new Canada’s Anti-Spam Law (CASL), and the usual marketplace challenges of being asked to do more things better but with less, many NPO boards and management may feel this is an appropriate time for a strategy review.

Changing strategies doesn’t necessarily mean changing the NPO’s mission, though periodically reviewing the continuing appropriateness of the mission is a worthwhile activity. Instead, a change in strategy may mean identifying new ways to improve the NPO’s effectiveness in achieving that mission.

For example, changes in financial operating models and financial management techniques may enable an NPO to increase the funds it has to direct towards achieving its mission. Supporting strategies may include undertaking advertising or marketing programs to change the NPO’s public profile to help it generate new revenues by increasing funding from donors or government. Such a campaign may include using new communications, such as social media, to better reach target donors and other funders. Other strategies may focus on reducing costs and increasing operating efficiencies by entering into strategic partnerships with other NPOs and organizations that share the NPO’s mission in order to pool resources, or making better use of technologies to support the NPO’s strategic objectives.

Management should provide the board with regular reports on the NPO’s progress towards achieving its strategic objectives. Most boards undertake strategy discussions with management at least every other board meeting and many do so at every board meeting. When problems arise, boards typically need to become more actively involved and ensure that management develops remedial plans to bring the NPO back on track. In serious situations, the board in conjunction with management may need to reassign responsibilities or replace employees.

Sometimes, however, the board may determine that the NPO missed achieving its strategic goals because the original objectives were inappropriate. If so, the board should understand the underlying reasons, revisit the organization’s strategic planning activities and, with insights from management, set new, more achievable goals. When making major changes to the organization’s strategy, however, the board needs to take care to ensure that the NPO’s reputation isn’t damaged, which could cause it to lose the support and confidence of employees, donors and other stakeholders.
Questions for directors to ask:

- Have we assessed the effect that regulatory changes may have on our strategies? Do we need to change our strategies to comply with the new rules?
- Do we review the appropriateness of our mission periodically? How successful has our organization been at achieving its strategic goals? Do we set our sights too high or too low and how has this affected the way stakeholders perceive our organization?
- How often do we revisit the strategies we follow in order to carry out our mission? Do we adopt best practices as they emerge, or are we still doing things the way that we have always done them?
Stakeholder confidentiality and privacy

How secure is our stakeholders’ personal information?

Risk is everyone’s job, which is why most organizations have created a risk-aware culture. Individual employees are responsible for managing the risks related to their day-to-day activities, while a risk manager coordinates risk management across the organization. In risk-aware organizations, every person knows how to recognize the risks related to their jobs and how to respond when these risks occur. Normally, they are also aware of the risks that affect other parts of the organization, or the entire organization, and the consequences their actions have on others.

Risk is dynamic, so it is important for employees to be aware of changing risks and how they may affect them and their jobs. Privacy protection is an example where law is trying to adapt to rapidly changing environment and that may create new risk considerations for NPOs.

Canada’s Personal Information Protection and Electronic Documents Act (PIPEDA) and similar provincial regulations govern how organizations must use and protect the personal information they obtain. Smaller NPOs that do not engage in commercial activities may not be automatically subject to PIPEDA, but they should not assume they are automatically exempt from it either. Selling or leasing a membership list, for example, is considered to be a commercial activity and many athletic clubs may also engage in commercial activities. NPOs, therefore, should ensure that employees understand the Act and how it may apply to them.

The board should ensure that the NPO has a privacy policy that governs how it collects, uses and safeguards the personal information provided to it by employees, volunteers, donors, members and other stakeholders. NPOs are responsible for protecting the information they receive against loss, theft, unauthorized access, disclosure, copying or modification. The organization may only use personal information for the purposes for which it was collected and it should take appropriate steps to ensure that personal information disclosed to a third party will be protected by that third party.

The board should ensure that management has reviewed the forms and other means by which the organization collects personal information from donors, members, employees and others to ensure that they include the proper consent language, including reference to the organization’s privacy policy, a description of how information will be used and protected, and how to cancel a subscription or to modify personal information. The board should also ensure that management has received the consent of all individuals who have provided personal information to the NPO and that, if applicable, appropriate data protection agreements have been signed with service providers.

The board should also ensure that the NPO’s privacy policy conforms to the new Canadian Anti-Spam Legislation (CASL), which among other things, requires organizations to obtain the positive “opt-in” consent (i.e., permission) from recipients in order to be able to send them commercial electronic messages (CEMs). Most NPOs will need to obtain express consent from donors, members, past members, and other contacts. In addition, CEMs must disclose the identity and contact information of the sender and provide the recipient with an easily accessible unsubscribe mechanism. Directors will want to ensure they have taken steps to understand how CASL understand applies to their particular organization, and what steps need to be taken to ensure they are compliant with the new legislation.
Questions for directors to ask:

• Does our organization have an up-to-date privacy policy that conforms to the requirements of PIPEDA and CASL? Is management taking all of the appropriate steps to ensure that our organization complies with the new rules?

• How effective has management been in identifying the major risks facing our organization and in implementing processes to mitigate those risks? Does management do a good job of scanning the horizon for emerging risks? Does the board have a strong understanding of the organization’s risk environment? When was a risk assessment review last conducted?

• Do we have a strong and effective risk-aware culture? Have we had risk surprises in the past? Are we confident that the organization’s employees and volunteers understand the risks related to their roles? Who coordinates risk management across the organization?
Every organization needs to be able to measure its performance so it can determine how well it has achieved its objectives and to identify ways to improve its operational efficiency. That’s not always a straightforward task for not-for-profit organizations because traditional business performance measures such as the “bottom line” aren’t always applicable for them. NPOs, therefore, often need to determine their own metrics for measuring their performance.

To measure their performance, NPOs need to track their program inputs – the resources they expend to deliver their services and programs. Most NPOs track the funds they raise from donors and their other financial inputs and prepare annual financial statements. NPOs that prepare and monitor financial statements more frequently and in greater detail, for example identifying donations related to individual programs, may be able to identify and respond to changes in specific circumstances more quickly. In addition, NPOs should also measure the non-financial inputs to their programs, such as volunteers and employee time and effort; again, when these inputs are allocated to individual programs rather than organization-wide activities, the NPO will have a clearer idea of the cost of each program.

The Australian Institute of Company Directors’ proposed *Good Governance Principles and Guidelines for Not-for-Profit Organizations* suggests possible performance indicators for NPOs, such as the ratio of administrative expenses to revenues to measure administrative efficiency; ratio of program expenses to program commitment to measure program efficiency; or ratio of fundraising expenses to funds obtained as a result to measure fundraising efficiency.

NPOs should also measure their program outputs so management can determine the progress the organization is making towards achieving its mission. A comparison of program inputs and outputs made over time that illustrates any changes in costs to deliver the same outputs enables the organization to measure its efficiency in delivering its programs.

Since the purpose of measuring performance is to provide management with the information it needs to identify, monitor and take actions to improve the organization’s effectiveness, good performance measures should focus on key performance indicators that relate in a meaningful way to the NPO’s goals. Whenever possible, basing the organization’s performance measures on industry benchmarks will help the NPO to compare its performance against other organizations that operate in the same sector.

Performance measures should be timely, so management can take action to adjust activities while there is still time to do so effectively. Linking a performance measure to an individual person or group within the NPO with responsibility for taking action helps ensure that the information will be acted upon.
Questions for directors to ask:

• How well does the board understand both the inputs and outputs that drive the organization’s performance? If this information is captured only at an organization-wide level, should the board require management to drill down in order to understand the costs of each program and the success it is achieving?

• Does the board receive information that enables it to compare the organization’s performance against that of similar organizations? If so, is its performance better, worse or the same?

• Does management provide the board with longer-term comparisons of performance? If so, are the organization’s efficiency levels changing, for better or worse? What longer-term progress is the organization making towards achieving its mission?
Stakeholders

Do you have two-way conversations with your stakeholders?

A governance best practice among publicly-listed companies is for the board to take responsibility for overseeing the organization’s communications with its stakeholders. In many instances, the board, often via the board chairman, takes the lead role in communicating directly with key stakeholders or stakeholder groups.

NPOs have a variety of stakeholders – donors, government and other funders; employees and volunteers; clients and beneficiaries; and more. Understanding the expectations of each of these stakeholder groups is essential. Stakeholders’ priorities and expectations for the organization may change, and it is important for the board and management to understand what is of importance to each of its major stakeholder groups at any given time. While many stakeholders may have similar priorities, it is likely that one group’s top concerns will differ at least to some degree from the concerns of others. The challenge for the board and management is to be aware of all of these key concerns and to manage all of them effectively.

The board should oversee the NPO’s communications with its stakeholder groups, and in some situations it may be appropriate for individual directors to take direct responsibility for liaising with particular stakeholders. The objective should be to build trust with each stakeholder group in order to build strong relationships with each of them. Good communication is key to building those relationships.

The board should ensure that the messages communicated to stakeholders are appropriate – they should be linked to the NPO’s mission and vision and describe how the NPO is achieving its objectives. Communicating with stakeholders should also be a two-way process. It is important to listen to stakeholders’ concerns and to act on them. In cases where the organization chooses not to act, the board should ensure that the reasons for not doing so have been communicated back to the appropriate stakeholder group.

While the board has a leadership role to play in communicating with stakeholders, everyone in the organization has a role to play. Individual volunteers and employees will each have ongoing working relationships with different stakeholders. It is important, therefore, that they understand that they are representatives of the organization and that their behaviour can affect people’s perceptions of it.

Questions for directors to ask:

- Have we identified our different stakeholder groups and do we understand their concerns and priorities for our organization and their perception of it?
- Does the board receive direct feedback and input from stakeholders? Does the organization respond to their concerns in a timely and effective manner?
- Should directors play a more direct role in liaising with any of our key stakeholders? Do any directors have connections with a stakeholder group that would make them better suited to take the lead role in communicating with that group?
Accountability

How well do you tell your story?

Everyone is demanding more information in order to make informed decisions. Donors, partners, volunteers, other stakeholders and the general public all want not-for-profit organizations to provide them with more information on a growing variety of topics. While some NPOs may only be requested to provide this information, others must do so by law – the information registered charities are required to file with Canada Revenue Agency includes the names, titles and compensation of their five highest paid employees.

Boards need to ensure that the NPO puts policies in place to govern the disclosure of information. The policies should cover information the organization is required to disclose by law, as well as information it voluntarily discloses in response to stakeholder requests. Information that a not-for-profit organization may be asked or required to disclose can include that related to executive and employee compensation, hiring policies, procurement activities, administrative costs, operating expenses including travel and hospitality, and fundraising activities and costs.

The information that a not-for-profit organization discloses to its stakeholders can help build trust and support among the general public and the community it serves. An annual report can be an important vehicle for communicating important information about the organization. A best practice is to post the NPO’s annual report on its website.

Many NPOs, including registered charities, are only required to disclose financial information in their annual reports. While this information is important, there is a lot more information that an NPO could disclose that would be useful to its stakeholders. A narrative report allows the organization to explain the financial information it discloses as well as discussing non-financial measures of the NPO’s performance and achievements, such as contributions made by volunteers or the NPO’s impact on the community. An integrated report should also be forward-looking, and discuss the organization’s strategic goals and future objectives.

When determining the information to disclose in the organization’s annual report, the board should consider the information needs of the NPO’s key stakeholders. A good annual report should also be balanced. When discussing the NPO’s mission and objectives, for example, it should also identify the risks that may affect the organization’s success. While the annual report should highlight the NPO’s accomplishments, when objectives are not met the report should also acknowledge and explain the reasons for these shortfalls.

Questions for directors to ask:

- Has the board put in place policies to govern the disclosure of information? Are they supported by appropriate mechanisms to ensure that the policies are being followed? How often does the board review these policies and their effectiveness?
- Does management provide the board with reports that identify external issues that may affect the organization? Does the board obtain feedback from stakeholders to identify any issues that may require amendments to policies, indicate areas of increased scrutiny, respond to emerging issues and make improvements that protect the NPO’s reputation?
- Does our organization publish an annual report? Does this report go beyond compliance with minimum disclosures to provide a fuller picture of our activities? Does the information disclosed in our annual report satisfy our stakeholders’ information needs and help to build support among them?
Talent

How well does your organization compete for talent?

The success of most organizations is based on the quality of its most valuable asset – its people. Given this, it is not surprising that the competition for top talented people is a growing challenge for every organization.

Competing for talent can be particularly difficult for not-for-profit organizations since many of them offer lower rates of compensation than for-profit businesses. Some may do so because they have limited budgets, while others may believe that money saved on compensation is put to better use on activities that support their mission. No organization, however, will successfully achieve its mission and objectives if it cannot attract, retain and develop the people with the expertise and talent required to execute the organization’s strategies. The issue for not-for-profit organizations, then, is not whether they can afford to offer market level compensation but whether they can afford not to?

Not every NPO may want to or be able to match the compensation packages offered by for-profit businesses. Instead, they may choose to emphasize the non-monetary benefits associated with their employment, such as the attractiveness of the work environment, their programs to support diversity or employees in their work/life balance, and the opportunity their employees have to make a positive impact on their communities.

NPOs require talent to fill positions that are not unique to the not-for-profit sector, such as a chief financial officer or a chief information officer. In these situations, being unable or unwilling to offer compensation packages that are competitive with those provided by for-profit companies makes it difficult for NPOs to attract the best candidates for their organizations. While NPOs don’t have the option of offering some compensation elements of a for-profit business, such as stock options, one element that may deserve consideration is “pay for performance.”

Properly structured, pay for performance plans may do more than just help NPOs attract and retain talent from for-profit businesses, where such incentives are often an expected part of employee compensation. Variable compensation plans can also help the NPO better achieve its strategic objectives, since the purpose of these plans is to focus employees on the activities that do most to enable the NPO to achieve its goals.

To be effective, a variable compensation plan needs to be linked to the organization’s mission and strategy since its purpose is to encourage employees to undertake activities that help achieve the organization’s strategic objectives.
Questions for directors to ask:

• Does the board view the management of talent as primarily a staffing issue or as something that is essential to the organization’s longer-term sustainability?

• Are we satisfied that we have people with the right skills and expertise in all key leadership positions, or does our organization suffer a talent deficit?

• When we recruit people to our organization, do we help them develop and grow their careers with us, or does our turnover rate mean we continually re-spend on recruiting and training?

• How competitive are the compensation packages we offer to employees, including all of the benefits and non-financial rewards? Are we offering enough to attract and retain the talent we need?
Do people “like” you on Facebook?

Social media has become one of the hottest ways for organizations to connect with and build relationships with their stakeholders, donors and the community at large. With the proliferation of smartphones and other mobile technologies, people are more than just “online.” For many, these technologies have become a preferred way for them to interact with friends, families and others.

A November 2011 study, *Dynamics of Cause Engagement*, conducted by Georgetown University, found that social media users were more than twice as likely to volunteer their time or buy products or services from companies that supported their cause, five times more likely to recruit others to sign a petition for a cause, four times more likely to ask others to contact their political representatives, and three times more likely to ask others to donate. Not surprisingly, for-profit businesses, particularly retailers, are using social media sites such as Facebook and Twitter to create their own virtual communities and build loyalty among their customers.

Social media provides NPOs with a powerful means of interacting with and raising awareness among their stakeholders and driving fundraising. For example, NPOs that allowed people to text $10 donations that were added to their telephone bills helped to raise millions of dollars in additional funds following the 2010 earthquake in Haiti.¹

While NPOs often lag behind for-profit organizations in adopting new technologies, perhaps because they don’t have the same depth of in-house skills and knowledge to utilize them, social media does not require advanced technology skills. For example, smartphones and other mobile computing devices, such as tablets, can be used to record videos and pictures that can then be uploaded to a social media site to gain interest from future donors and report the NPO’s progress to existing donors.

Mobile technologies also offer NPOs an easy-to-use and affordable way to improve their efficiency in other ways. For example, tablets may be used for accounts payable and receivable activities while in the field, for later uploading to a central processing station. Similarly, mobile technologies can be used for fundraising drives when they are supported with card swipe technologies.

¹ [http://mashable.com/2010/01/20/social-media-lessons-haiti/]
Questions for directors to ask:

- How technology-savvy is our organization? Are we among those organizations that adopt new technologies as they emerge, or do we lag behind our peers?
- How well does management understand social media? Has management made effective use of social media sites to reach our stakeholders? How does our use of social media compare to similar organizations, both for-profit and not-for-profit?
- Is management using mobile technologies to improve our efficiency? If not, is it because our people need to be trained in how to do so?
Culture, ethics and values

Are you relying just on good intentions?

One of any organization’s most valuable assets is its good public reputation, which, if lost, may result in the organization’s collapse. While some organizations may have their reputation damaged deliberately, more often it is a result of unwitting actions by people within the organization or who are associated with it as suppliers or partners. Retaining the trust of those who contribute to it – donors, funding agencies, members and employees – is essential for not-for-profit organizations. Similarly, beneficiaries also need to trust the NPO and be assured that the programs or services provided by the NPO are of value.

In most organizations, the board of director’s mandate specifically includes responsibility for oversight of the organization’s reputation, and for ensuring proper ethical practices and behaviour. The board sets the standard, and therefore it must ensure that the behaviour of directors and employees meets the highest standards. This is known as setting the “tone at the top.”

An organization’s ethical values are typically set out in a Code of Conduct, which sets out the boundaries of acceptable behaviour and outlines the penalties for lapses. A strong Code, therefore, can help reduce the risks of fraud, conflict and other events that could harm the NPO and its reputation.

To be effective, the Code of Conduct should be approved and championed by the board, and then communicated to all of the NPO’s employees and volunteers. Employees and volunteers should confirm their compliance with the Code at least annually. The Code may also govern the NPO’s relationships with partners, suppliers and others doing business with it to ensure that associated organizations share the same ethical standards as the NPO. A good Code of Conduct, when posted on the NPO’s website, can also be helpful in attracting employees and volunteers to the organization.

To be effective, a Code of Conduct must be more than statements of good intentions. The Code must also be monitored and enforced. The Code, therefore, should include whistleblowing provisions that describe how individuals in the organization can report their concerns and the protections that will be provided to people who make such reports. In most organizations, whistleblower concerns are reported either to the full board or to a board committee, such as the audit committee, which is responsible for taking appropriate action in response.

Questions for directors to ask:

* Do we have an effective Code of Conduct? Has the board reviewed the Code recently to ensure that it is up to date and covers all aspects of the organization’s activities? Do we obtain compliance confirmation from employees and volunteers on an annual basis?
* What ethical breaches have been reported to the board in the past? Are these one-off situations or are they an indication of ongoing problems?
* What feedback have we received from stakeholders regarding their perception of our organization? Do we continue to have their confidence?
* Does the board demonstrate strong leadership in this area? Do directors and management set the appropriate tone at the top? If so, how do they do that?
Governance

How effective is your board?

The expectations of directors of not-for-profit organizations can vary from one NPO to another, depending on its size, mission, industry or other factors. Despite the fact that they serve as volunteers without compensation, NPO directors have the same fiduciary duties as directors of for-profit entities. They are responsible for making decisions about strategy, overseeing management, the NPO’s operations and its risk management processes, liaising with key stakeholders and more. In smaller NPOs, some directors may also be asked to take a more hands on role in areas where the NPO’s staff lacks capacity, experience or expertise.

As organizations evolve, the issues facing them often change. The issues considered in this publication focus on some of those changes, such as the transition to a new regulatory environment and accounting standards, and the issues affecting their operating environment, their stakeholders and their expectations of the NPO. Any of these changes may create the need to adapt the organization’s strategic objectives, risk assessments and management, as well as other areas.

Given the variety of issues boards need to address, no single director will likely have the time, expertise and understanding to address all of them. Boards, therefore, need to ensure that they have a sufficiently diverse membership that collectively possesses the range of experiences and expertise required to address all facets of the NPO’s operations. As the NPO’s operating environment changes, the board may need to make similar changes among its own membership to recruit directors with different skill sets and provide existing directors with additional education, such as briefings by staff or other experts, online learning, external conferences and site visits to the NPO’s operating facilities.

Board assessments often identify areas where directors would benefit from additional learning. At a minimum, boards should assess and measure their effectiveness in carrying out the responsibilities outlined in their mandate at least annually. Boards should also assess how effectively directors work together as a group, how well it manages its time and priorities, and whether changes should be made to the board’s information, processes or other resources.
Questions for directors to ask:

• Do our board members collectively have all of the required knowledge and experience to effectively carry out each item in the board’s mandate? If there are expertise gaps within the board’s collective experience, how will we address them?

• Does the board assess its performance at least annually? How rigorous is this process? Do we ask the hard questions when necessary or do we go easy on directors because they are volunteers?

• How committed are directors to the board, the NPO, and ensuring that they carry out their responsibilities effectively? Are directors on the board making a difference for the NPO, or do they view serving on an NPO board as a lesser priority than their other responsibilities?
A closed door or an open one?

“When one door closes, another opens; but we often look so long and so regretfully upon the closed door that we do not see the one which has opened for us.”

– Alexander Graham Bell
As the articles in this publication have highlighted, the NPO operating environment continues to be reshaped by many factors – regulatory changes, technological advances, demographic shifts, changing stakeholder expectations, and more. Boards have an important role to play in helping their organizations determine how to respond to the new environment.

This publication discusses some important issues for boards in 2013, but there are many others including those that are unique to an industry, operating jurisdiction, or individual organization.

Since many of these issues will evolve rapidly, and because new ones are continually emerging, we suggest that boards create an action plan to address the following:

1. Educate themselves so they keep pace with the challenges facing their organizations and commit to helping address those challenges. Many business schools offer education programs for boards that often use real-life case studies to help boards build their knowledge of emerging trends and issues, and build and enhance the skills they require to lead their companies in addressing these challenges.

2. Make time to carry out their responsibilities. Boards need to ensure they give themselves sufficient time to fully review materials and documents in advance of meetings, participate actively on board committees, and maintain their knowledge of the issues.

3. Find time to network with directors of other organizations. Several social media websites are available to bring together board members and to provide them with a forum for sharing ideas and experiences.

4. Ask better questions. The discussion of issues presented in this publication includes suggested questions for boards to ask to help focus on the needs of their own boards and organizations. It also offers additional resources for directors to use to further their knowledge of specific topics.

It is our sincere hope that this publication serves as a catalyst for discussion on your board. We encourage you to contact one of our experts listed at the end of this publication to continue the conversation.
Additional Resources

A Risk Intelligent view of reputation (Rii Ltd. and Deloitte U.S.)

Building an effective board for not-for-profit organizations (Deloitte)

Cultivating a Risk Intelligent Culture: Understand, measure, strengthen, and report (Deloitte U.S.)

Managing the message: Canada’s new anti-spam law sets a high bar (Deloitte)

NPO Director Alert The New Canada Not-for-Profit Corporations Act – questions for directors to ask (CICA)

Transition Guide for Federal Not-for-Profit Organizations (Industry Canada)
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