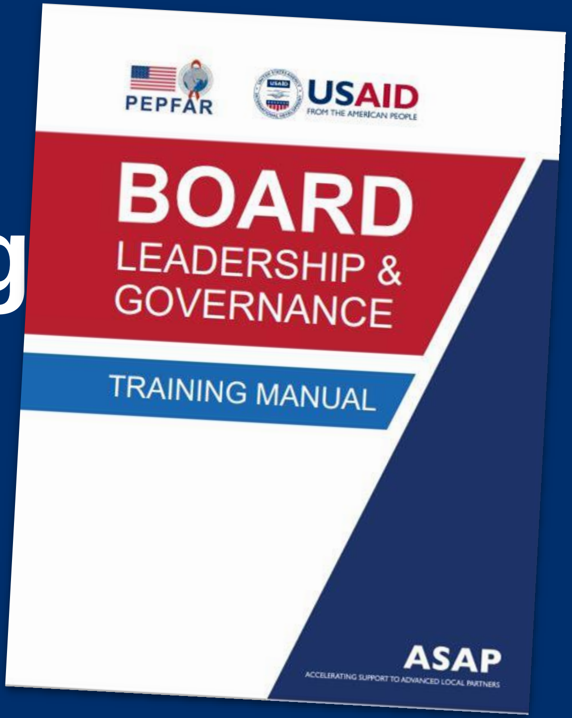
Board Leadership & Governance Training

USAID/Accelerating Support to Advanced Local Partners (ASAP II)



Agenda

Welcome and Introductions

Module 1: Board Governance, Roles, and Responsibilities

Module 2: Fully Functioning Boards

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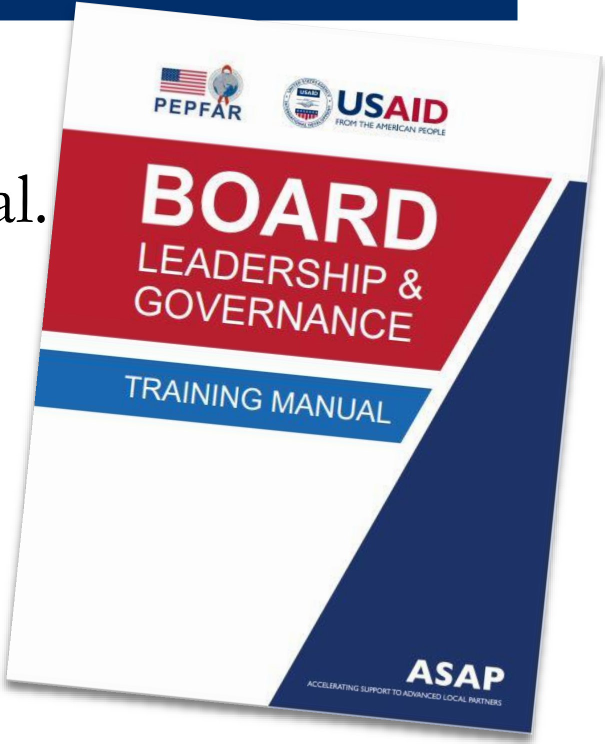


MODULE ONE

Board Governance,
Roles and Responsibilities

Session 1: **Understanding Board Governance**

Objectives:

- To understand board governance and leadership
- To explain the role of governance and leadership responsibilities of board members
- To promote effective board leadership and oversight, critical activities, policies, and procedures.

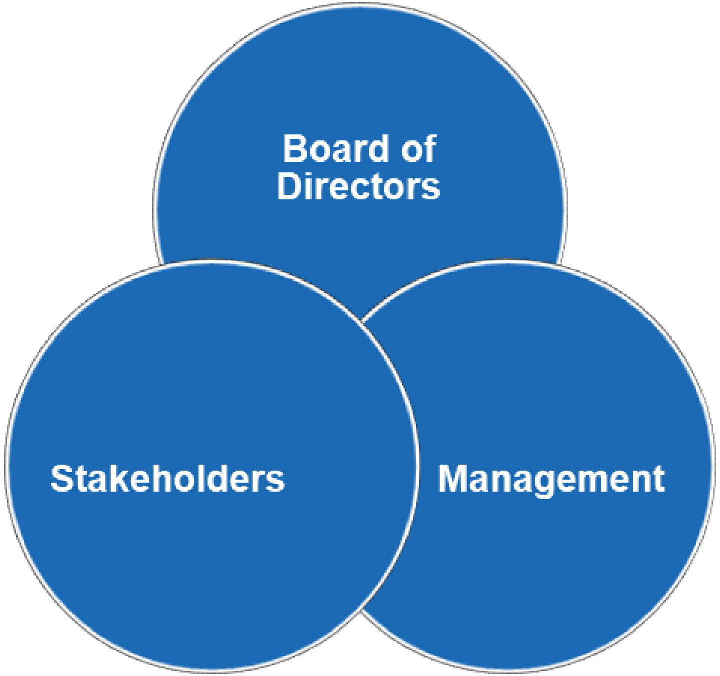
EXERCISE

The board of directors of an organization is responsible for organizational governance.

What does "governance" mean to you?

What is Governance?

- Governance refers to the authority and power bestowed on the board of directors to make decisions on behalf of an organization.
- “Governance is the systems and processes concerned with ensuring the overall direction, effectiveness, supervision, and accountability of an organization.”
- The board of directors, management, and stakeholders are all key players in governance systems



The Role of the Board

- The board is responsible for providing confident and strong strategic leadership while assuring the current and future direction of the organization.
- Not only does the board have the ultimate authority to act for the organization—it is also accountable for the outcome of any decisions, as well as for the process by which they were made.
- Board leadership requires a commitment by its members to work together to ensure robust accountability, oversight, and assurance for excellent organizational and financial performance

Summary

The first step in good governance and leadership practice is understanding what governing is and what each organization needs to have in place and why.

Session 2: **Understanding the Role of Governance & Leadership**

EXERCISE

What key areas of the organization must board members pay attention to?

Board Legal Obligations

- Ensuring clarity of vision, ethos (i.e., values that distinguish you from other entities), and **strategic direction**. The board should exercise strategic thinking and function at a macro level. It should ask key questions, such as where are we, where are we going, and how are we going to get there?
- Focusing on the **mission of the organization**, the beneficiaries to be served, and awareness of the environment and any factors of importance.
- **Holding executive leaders to account** for the organization's performance.
- **Monitoring organizational performance and management** of staff to ensure successful delivery outcomes.
- **Overseeing the organization's financial performance** and ensuring that money is well spent.

Important Areas of Governance

- Governance accountability
- Board oversight and compliance
- Board loyalty
- Board commitment to the role of governance

Governance Accountability

- Accountability is key, especially for the decision-making authority that organizes who is responsible for making key decisions.
- Organizational structures are needed that define and clarify responsibilities for operational, internal controls, and reporting processes.
- Organizational design/strategy that is understood by managers, employees, and external stakeholders.
- Accountability cannot be enforced without transparency and in accordance with the rule of law.

Board oversight and compliance

- Oversee the performance of senior management.
- Ensure individual accountability for regulatory compliance and risk management.
- Have sufficient visibility into the organization's operations and processes.
- Understand risks and ensure that risk management is taking place.
- Ensure that actions are consistent with the laws of the country.

Board loyalty

- Avoid conflicts of interest and commit to disclose and correctly deal with any that arise.
- Steer the organization toward activities that contribute to its overall objectives.
- Ensure effective use of resources.
- Ensure that the organization is managed in the best interests of its stakeholders.
- Ensure that clear procurement and contracting policies are established and followed.

Summary

The board serves as the legal and moral custodian of the organization, so it must pay attention to the organization's financial health and ask itself 'Do we have enough money to deliver our strategic plan?'

The board must make sure that financial resources are available to carry out the programs and services in the organization's portfolio and assure its stakeholders that financial management is in good hands.

Session 3: **Board of Directors Roles & Responsibilities**

EXERCISE #1

What are the key roles of the board of directors?

Key roles of the Board of Directors

- Establishing the strategic direction of the organization.
- Ensuring that the organization has financial resources.
- Providing **oversight and accountability.**

In these three areas, the board ensures that policies are in place to guide staff and processes. The oversight role of the board and key staff involves strategic, future-oriented thinking.

EXERCISE #2

What are examples of policies for which the board is responsible?

Identify some G&L policies that should be in place.

Board responsibilities

- The board delegates responsibility for implementing organizational policies to the executive director.
- The executive director is accountable to the board.
- The executive director will hold other staff accountable for operating within the guidelines established by the board.
- The executive director and other managers can establish policies for specific areas of the LIP's activities that align with the policies established by the board.

EXERCISE #3

Can you think of examples of policies that the executive director or other senior staff may develop?

Key Priorities and Policies

- A key priority for the board and executive director is anticipating possible threats to the organization's assets and establishing risk management policies to mitigate them.
- Other key policies include identifying who can make decisions, who has the authority to act on behalf of the organization and is accountable for how the organization and its people behave and perform, and who is authorized to make large purchases.
- List of Policies:
    1. *Risk Management Policy*
    2. *Delegation of Authority Policy*
    3. *Conflict of Interest Policy*
    4. *Code of Conduct Policy*
    5. *Succession Policy*
    6. *Whistleblower Policy*

Session 4: **Principles of Good Governance**

- The term good governance may not always be understood in all governance contexts. Good governance enables management and the board to achieve their purpose by running their organizations legally, ethically, sustainably, and successfully for the benefit of key stakeholders, including donors, staff, clients, and/or beneficiaries of its service, and for the good of the wider society.
- There are two aspects of governance: a practical aspect, consisting of what and how to carry out tasks, and a procedural aspect that informs how decisions are made and who makes them. To make the governance approach work, it is important to follow these principles.

EXERCISE

What do we mean by *good* governance?

Provide some examples.

The board of directors should always:

- Act in the best interest of their organization.
- Operate with openness, transparency, and with a good conscience — exercising no ulterior motives.
- Apply care, due diligence, thoroughness, and good judgment, with a sound understanding of the organization's business and work.
- Separate from any conflicts of interest.
- Conform to applicable country legislation and regulations.

The board of directors and executives who follow these basic governance principles will meet their fiduciary and individual duties and responsibilities. This is why the board holds a legal and ethical position of trust.

Why is good governance important?

- It provides stakeholders with the confidence that their interests will be preserved and increases their trust in the organization.
- It provides a strong framework and capacity for a high-performing organization to deliver on its vision, mission, and strategic goals with skilled capable staff who can plan, monitor, and implement sustainable outcomes.
- It ensures that the board is informed about the external environmental factors that affect the organization. In particular, the board's governance role is to ensure that robust strategies, systems, and processes are in place, including the installation of the right leadership and resources to sustain the delivery of programs.

Principles of good board governance

Principles of good governance are designed to guide the board of directors in their role of oversight, as advisors to the executive management, and in ensuring that the organization runs efficiently. The principles can be used to ensure that the various areas of its L&G systems are robust and in alignment. Principles are also useful for enhancing the knowledge of new directors who may be less experienced in governance.

Principle 1: **Understand the board's role**

1. Be clear about what they are there to achieve.
2. Safeguard the assets of the organization.
3. Ensure the existence of governing documents with terms of reference (ToR).
4. Schedule matters reserved for board consideration.
5. Oversee the organization's financial performance.
6. Manage, advise, and support staff and volunteers.

Principle 2: **Deliver the roadmap of the organization**

7. Ensure that the strategy remains relevant and valid.
8. Develop and agree upon a long-term strategy.
9. Agree on operational plans and budgets.
10. Monitor progress against plans and budgets.
11. Evaluate results and outcomes.

Principle 3: **Be effective**

12. Ensure that the board receives accurate and timely information from management.
13. Ensure that policies, attitudes, and behaviors help the board and staff work effectively.
14. Recruit board members with diverse skills, experience, and expertise.
15. Develop an induction program for new board members.
16. Provide training opportunities for board members.
17. Perform ongoing self-evaluation of the board, individually and collectively.

Principle 4: **Exercise control**

18. Ensure compliance with all regulatory and legal requirements.
19. Ensure good internal management and financial control systems.
20. Identify risks and have systems in place to manage them.
21. Present a delegation of authority (DoA) policy and matrix.
22. Escalate the review process of fundamental issues to the board.

Principle 5: **Behave with integrity as an emotionally intelligent board**

23. Safeguard and promote the organization's reputation.
24. Act according to high ethical standards.
25. Manage conflicts of interest and loyalty.
26. Maintain independent decision-making.
27. Practice emotional intelligence, individually and as a team.

Principle 6: **Be open and accountable**

28. Demonstrate open communication in sharing information about the organization’s work.
29. Consult people appropriately.
30. Listen and respond to all stakeholders.
31. Handle complaints constructively, impartially, and effectively.

Summary

It is important to stress the meaning of “key stakeholder” in good governance because it is the duty of board members to remain focused on stakeholder needs (e.g., program recipients and funders), whose interest will be to see you deliver good outcomes. Programs often fail because senior management often forgets the importance of the program funders, whose interest is to see you deliver good outcomes.

EXERCISE

What is *bad* governance?

What are the challenges faced by the board of directors?

CHALLENGE	SOLUTION
Conflict of interest: Erode trust in board members	Ensure that you can verify all transactions for any conflict.
Governance standards: Have rules and policies.	Have an enforcement mechanism in place.
Short-termism: Short terms can rob the board of long-term oversight and critical expertise.	Focus on long-term sustainable plans and outputs.
Board directors: Serving for too long	Ask yourself if they can remain independent.
Composition of the board: Not having a proper mix of members	Ensure that the board includes a mix of skills, age, race, and genders.
Accountability issues: Lack of role clarity about who is responsible for what	Always protect the interests of stakeholders.

EXERCISE

Can you think of challenges that are missing from the list above?

Summary

- The executive director is dominant and does not reassure the board that all is well in the organization; you are not sure if the board is strengthening its performance over time.
- The board is not active, and meetings are not scheduled regularly.
- Board members are not sure of their roles and responsibilities and are not fully engaged.
- The board is not working in partnership with the executive director and is not overseeing the executive director through the Chair.
- The board does not demonstrate commitment to donors, funders, and community members.
- The board is not assessing its performance and is not prioritizing strategic planning processes.

Session 5: **Critical Board Activities, Policies, and Procedures**

Board areas of focus should include:

BOARD AREA	WHAT NEEDS TO BE IN PLACE
Strategy environment	Existence of a clear roadmap: vision, mission, goals, and strategic actions Communication of the strategy to staff and stakeholders.
Leadership and decision-making	Clear structures for decision-making, communication, and ownership of decisions A functional governance system compliant with governance structures Evidence of mentoring and nurturing by leadership.
Organizational structures	A structure aligned with the strategy. Adequate structure to fulfill organizational needs. Clarity of roles and responsibilities Effectiveness of the chain of command Interdepartmental relationships.
Organizational culture	Values and behaviors that hold the organization together. Impact of current performance culture and sustainability of good performance.

Board areas of focus should include:

BOARD AREA	WHAT NEEDS TO BE IN PLACE
People, talent, and skills	Staff with the right skills relevant to your organization People who can deal with change.
Performance and results management	Individual and organizational performance management plans Setting of clear targets Appraisal of performance system.
Financial management and sustainability	Planning, budgeting, and implementation Internal controls and risk management Financial reporting Knowledge of available financial resources to deliver programs. Resource mobilization strategies.

Board areas of focus should include:

BOARD AREA	WHAT NEEDS TO BE IN PLACE
Processes, policies, and procedures	Applicable policies, processes, and procedures Alignment of each policy/process/procedure to the strategy, mission, and vision Compliance with existing policies.
Information communication technology	Use of technology Infrastructure – software, systems, and hardware IT skills available Knowledge management.

Principles of Good Governance

Accountability	• Management is accountable to the board. • The board is accountable to stakeholders. • Organization is accountable for actions and use of resources to donors, legal authorities, and employees
Fairness	• Protection of stakeholders' rights and interests • Equitable treatment of all stakeholders • Redress provided for any violations
Transparency	• Open leadership provided. • Timely and accurate disclosure on financial situation, performance, stewardship, and governance are ensured
Recognition & Awareness	• Stakeholders' rights are recognized. • Cooperation in meeting goals is encouraged. • Leadership is ensured that is capable, responsible, representative, and conscious of its obligations. • Effectiveness and efficiency are ensured in the use of resources and in getting results.

MODULE TWO

Fully Functioning Boards

Session 1: **Components of a Balanced Board**

The board’s responsibility is to ensure that the organization has capable and committed leadership, both at the staff level and at the level of board governance. It is essential for the board to be balanced
– maintain focus, review regularly, and ensure that its good governance principles always prevail.

EXERCISE

Why do you think the size of the board matters?

The ideal size of a board depends on several factors:

- The right mix of backgrounds, skills, and expertise.
- Financial expertise: it is always prudent to have a very experienced board member who can advise the board on fiduciary management issues.
- Relevant program development experience, particularly for LIP boards.
- Human resources experience.
- Legal expertise.
- Representatives of key stakeholders.
- Honesty and integrity – the ability to rely on them.
- Diversity, including gender and age distribution.

EXERCISE

How many directors should a board have?

Although boards will vary in size by organization, the average board has seven to ten members, and its size should:

- Enable productive and beneficial discussions and the ability to make prompt, rational decisions,
- Allow efficient organization of the work of board committees,
- Allow effective voting, without any conflict-of-interest issues (whereby an arrangement might benefit a board member or an employee on a personal level).

Be sure to refer to your board's Articles of Association for further clarity.

Board Member Characteristics

To recruit the right members with the right skills to support governance, the board will need to consider the following qualities that each potential board member should have:

- **An understanding of the organization's agenda and issues:** an understanding of the economic and professional environment in which the organization operates.
- **Knowledge that is unique and will help the board:** someone who will ask the right questions, can interpret information, and can accomplish specific tasks.

Board Member Characteristics *(cont.)*

- **Skills that will facilitate the board's work, including:**
  - Good communication skills,
  - Ability to chair meetings,
  - Sound planning skills.
- **A strong network, connections, and/or influence in the community:**
  - Within political, business, professional, or religious networks
  - With potential funding sources.
- **A personality that will enhance the board as a team, including:**
  - A vision
  - Ability to build consensus among board members
  - Strategizing skills and big-picture thinking
  - Ability to challenge others professionally.

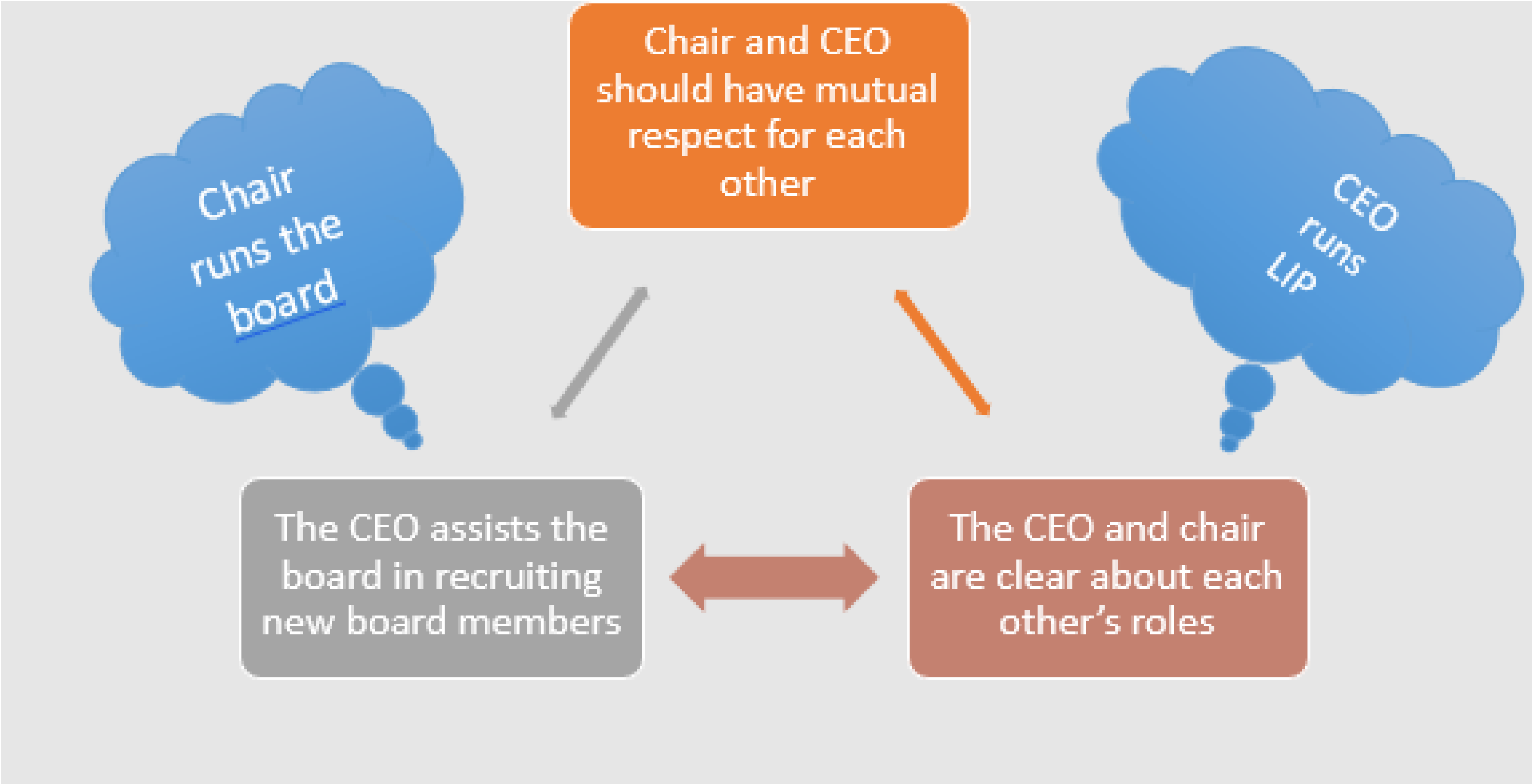
Summary

A balanced board is mindful of the dysfunctions that can cause problems and works hard to remove them. Failures can include an absence of trust, inattention to results, lack of commitment, avoidance of accountability, and fear of conflict.

Session 2: **The Board Chair and Executive Director Relationship**

A successful board chair and executive management relationship functions as a partnership where the two parties have different roles but are mutually independent. A successful relationship between the chairperson and executive management depends on the clarity of expectations about how to work together, with the CEO taking direction from the board, not from individual members.

Role of the Board Chair



The board chair and management roles are clearly separated:

- The board governs and the staff manages,
- The board delegates responsibility to the executive director,
- The board and executive director work in partnership,
- The board regularly evaluates the executive director,
- The board plans for the succession of the executive director.

The role of the board chair is to:

- Shape the culture in the boardroom,
- Encourage all board members to engage in board and committee meetings by using their skills, experience, and knowledge,
- Ensure that relationships are based on trust, mutual respect, and open communication, both inside and outside the boardroom,
- Develop a productive working relationship with the executive director,
- Serve as a guide and mentor to new directors,
- Lead annual board evaluations and act on the results,
- Organize regular, externally facilitated board evaluations.

Responsibilities of board and executive management

BOARD LED BY THE CHAIRPERSON	MANAGEMENT LED BY EXECUTIVE DIRECTOR
Defines expectations for the organization: • Develops strategy (strategic plan) • Grants power • Verifies performance • Ensures compliance with governing documents (e.g., a charter) • Ensures accountability and compliance with laws and regulation • Maintains proper fiscal oversight.	*Takes direction from the board:* • Communicates expectations • Implements strategy and policies (short term plans) • Manages day-to-day operations • Manages program implementation to fulfill the expectations • Reports results to the board.

Characteristics of bad governance

- A non-independent chair
- Most of the board of directors are not independent
- Presence of considerable conflicts of interest
- Board members are friends or previously affiliated and collude in abuse of power and influencing decision-making.
- Key indicators of executive director performance are not in place
- No formal executive director annual review process
- Board meetings focus more on operations than strategic thinking or development
- No agreement between the board and management on the organization’s risks.

Looking out for bad governance:

- Non-ethical decision-making
- Negative media reports of a dysfunctional board
- Informal board reviews conducted by the Chair as one-on-one, friendly side chats
- Regular negative talk about the organization
- Presence of corruption at all levels
- Centralization of power and authority
- Political criminalization
- Poor knowledge of development issues
- Low level of board member education; unable to contribute effectively.

EXERCISE

When does the board get involved with the running of the organization?

When does the board get involved?

- **Big decisions:** When any issue may have a negative impact or strong financial stakes are involved.
- **On future focus:** The organization’s long-term vision.
- **Relevance:** To help the organization focus on what is currently important.
- **High-level policy decisions:** These include big purchases, future direction, executive director evaluation, and legal matters.
- **Overseeing trends:** Review of negative and positive trends (e.g., low performance, unethical issues, or continual poor performance).
- **Legal and media issues:** Tax issues, government relations, etc.
- **Support of the executive director:** To implement board decisions (such as reduction of organizational costs).

Ask yourself:

- How does the board ensure that you are aware of any serious problems in your organization?
- Does the board receive and utilize adequate information to support your oversight responsibilities?
- What documents does your board use to guide the delivery of its role?

EXERCISE

What are the signs of a board and management that work well together?

Summary

- The composition of the board works well,
- There is respect and trust among all board members,
- A strong team spirit exists,
- Emotional intelligence exists among board members,
- The board spends time building quality relationships with individual members, the board, and senior leadership,
- The board always cheers on the CEO and staff when progress is made,
- The board is an ally, a sounding board, and a trusted advisor for the CEO,
- The board focuses on addressing areas of dysfunction that can impact board performance,
- The chair and CEO continually invest in developing a good relationship to benefit the future of the organization.

Session 3: **Board Charter or Constitution**

EXERCISE

What is a Board Charter of the Constitution?

Board Charter

- A charter is a written policy that clearly defines the roles, responsibilities, and authorities of the board of directors, both individually and collectively; board members must be willing to fulfill the responsibilities set by the organization.
- A charter is important for delivering effective governance; the expectation is that board members will be committed to the mission of the organization.
- The charter encourages boards to focus on continuous improvement of their governance processes for the benefit of the organization; boards of directors should care about their organization's work and be willing to volunteer to support it.
- The charter provides a forum for discussing "hard-to-mention" governance issues.
- The charter creates a foundation for the board of directors and executive management to self-evaluate.
- The charter assists with checks and balances to prevent fraudulent activities.

Board Charter Outline

DEFINING GOVERNANCE KEY ROLES	KEY BOARD FUNCTIONS	IMPROVING BOARD PROCESSES	BOARD EFFECTIVENESS
• Board composition • Role of the board • Role of the chair • Role of individual directors • Role of the CEO • Role of the company secretary	• Strategic Planning • Monitoring • Risk management • Compliance • Policy framework • Networking • Stakeholder communication • Decision-making	• Board meetings • Board meeting agenda • Board paper • Board calendar • Committees	• Director protection • Board evaluation • Director remuneration • Director selection • Director onboarding • Director development

Session 4: **Board Committees**

The board's oversight role is usually implemented by Board committees that address specific organizational issues and report back to the entire Board.

Functions of a Board Committee

- Board committees are appointed by the board to focus on specifically designated areas of interest and make informed decisions within the delegated authority of the board.
- Committees offer a platform for boards to deal with specific issues that require specialized areas of expertise.
- Each committee has a special responsibility (e.g., human resources, auditing, fundraising), and reports its progress regularly to the main board or makes specific recommendations on matters pertaining to their areas.
- Each committee is chaired by a board director and presents decisions and recommendations to the main board at each board meeting, for information or approval.
- Board committees operate at the board level, not at the staff level.

Functions of a Board Committee

- It is vital to diversify the board members and make sure that the same board member is not active in several committees, as this can be a conflict of interest.
- Committee chairs report at each board meeting on the committee's work since the previous board meeting.
- All committees must abide by the requirements of the bylaws.
- Board members must be willing to take on extra duties.
- Each board should set up a clear structure for how the board and management will interact.
- The organization needs to determine a mechanism for board committees to escalate critical issues.

Examples of Typical Board Committees

Finance	Oversees the budget; ensures accurate tracking, monitoring, and accountability of funds; and ensures that adequate financial controls are in place
Audit	Plans and supports audit of major functions (e.g., finances, programs, etc.)
Public Relations	Represents the organization in the community and enhances the organization's image, including any communication with the press
Human Resources	Deals with human capital issues, including HR policies and procedures, contracts, and recruitment processes; and supports board evaluation of the Executive Director
Fundraising	Oversees the development plan for raising funds for the organization

Board committee considerations

- Define the **committee's responsibilities** and address linkages between the committee, the broader executive management team, and the board of directors.
- Define the **types of decisions** committee members can make, including events, risks, and other items that should come to the committee's attention.
- Be clear about the **methods of escalating and reporting** significant matters to the appropriate board or committee.
- "Establish the **independence and authority** of the control functions of compliance, risk, legal, finance, and audit"

The LIP board secretary or equivalent legal role

The board secretary is your go-to as a board member and:

- Reports directly to the chairperson,
- Assists you with legal and regulatory know-how,
- Must have both direct and informal access to board members,
- Maintains the complex, and occasionally strained, relationships between
- executive directors, chairs, and their boards,
- Maintains custody of important board corporate documents and minutes,
- Should structure their role to the needs of the organization.

Board system of checks and balances

What if an individual board member or executive director exerts their authority and oversteps, assuming powers beyond their limit? How would this be managed?

Checks and Balances

The board needs a system of checks and balances in place to avoid any untoward incidents in the organization. "Checks and balances" refer to a system in which departments or divisions of an organization have control over one another; e.g., each cannot proceed with a transaction or payment activity without authorization by a third party.

This reduces mistakes and prevents improper behavior in organizations, including situations where one individual, or a group of people, have too much-centralized control. It is especially important to have checks and balances in place in large organizations where individuals such as department heads make decisions that can have a profound effect on the entire organization."

Questions a board should ask itself

- Who authorizes your checks?
- How do we, as a board, ensure that one department does not exceed its boundaries?
- How do you guard against errors or fraud?
- How much do we know about the organization’s donor-funded programs’ performance and outcomes?

Areas to always reflect on as a board:

1. Clear separation of board and management roles—a requirement,
2. Clarity of board members about their roles,
3. Adherence to values, especially the commitment to a high level of accountability,
4. Existence of a good governing structure,
5. Promotion of the highest professional and ethical standards in the organization,
6. Board committees that speak to the board, not for the board,
7. A plan to ensure that board members are selected well and oriented to their new role and the organization,
8. Assurance that the board accepts responsibility for constantly improving itself.

Some takeaways

- Make board appointments wisely; they are a long-term investment.
- Always plan; new appointments create new opportunities.
- Carefully consider the skills and expertise of board members; what do your board and organization need to transform?
- Build skills and expertise into the development plans for future leaders.
- Provide onboarding support for new board roles; it is important for all appointees.
- Be sure to receive a diverse board candidate list when you recruit.
- Monitor the diversity of your organization’s succession planning; this is your talent pipeline, and the more diverse, the more successful you will be.
- Be aware of groupthink, hiring by type (e.g., about advocacy only), and comments about “fit” with the culture.

MODULE THREE

Board Risk Management

Session 1: **Overview of Risks**

- What is risk?
- The distinction between risk oversight and risk management
- Identification of risks
- Measurement of risks
- Roles and responsibilities in risk management
- Specific recommendations for implementing risk management.

EXERCISE

What is risk? Why is it important in board governance?
What risks do you face when coming to this workshop?

Board Risk

Definition: Board risk creates and suggests a hazard or uncertainty and can include a likelihood or threat of:

- Damage
- Injury
- Liability
- Loss
- Any other negative occurrence caused by external or internal weakness or exposures that may be avoided through proactive action.

Session 2: **Risk Management**

- "Risk management is a process of coordinated activities that serve as an effective mechanism to control or reduce risks. It stabilizes the organization by enabling the identification, prioritization, mitigation, and measurement of the implications of each risk that the organization faces."*
- Risk management is a top governance priority for anyone investing in an institution. People and entities increasingly push for more meaningful and transparent disclosures on board activities and performance, with respect to risk oversight.

**Enterprise Risk Management "A Risk Intelligent Approach, Deloitte 2015*

Risk Management:

Risk management helps the board be proactive and understand the risks that may impact them. Such management contributes to improvements in organizational performance through:

- Risk reduction that enhances service delivery
- Enhancing and protecting finances
- Proper management and efficient use of resources
- Increased performance
- Minimizing harm to staff and beneficiaries.

A good risk management program will:

- Bring in good governance principles: accountability, transparency, responsibility, disclosure practices, and effective relationships.
- Contribute to operational efficiency in the organization.
- Create a culture of compliance with laws and regulations.
- Improve stakeholders' confidence in your organization's ability to drive and achieve its mandate.
- Allow for identification of waste and lead to significant organizational savings.
- Reduce cases of corruption, bribery, and other unethical acts.
- Support the organization's growth strategy and give it a competitive edge over its peers.

Session 3: **Types of Risk**

All risks can result in reputational risk in the form of negative publicity, public perception, or uncontrollable events, causing an adverse impact. Reputational risk can impact without warning and may well shift your operational landscape.

CONTEXTUAL RISKS	PROGRAMMATIC RISKS	ORGANIZATIONAL RISKS
• Natural disasters • Terrorist activities • Lack of public infrastructure • Political instability	• Diversion • Lack of program delivery capacity • Poor service delivery outcomes • Lack of program efficiency and effectiveness	• Human resources • Fraud • Financial management • Lack of capable human capital • High staff turnover • Negative culture

Human Resources Risks

- Risks incurred by failure to conduct a thorough security screening of new employees and volunteers on police records, tax clearance, etc. Classic HR concerns are sexual harassment, hiring, disciplinary, and termination procedures.
- Risks introduced by recruiting volunteers—bringing in people who pretend to have good intentions but may cause harm to the reputation of the organization. Be mindful of who they are, how they function, and what role you give them.
- Risk of property theft due to insufficient purchase, storage, and monitoring procedures.
- Risk of losing or damaging the organization's reputation.
- Risks because of management attitudes and policies, which directly impact employee and volunteer behavior and mitigate or increase the potential for peril.

Legal risks

- Non-compliance with applicable state and local rules and regulations.
- Failure to follow proper registration guidelines.
- Delinquent tax payments (or lack of payment).
- Failure to produce annual reports, particularly when donor funds are being utilized.
- Financial impropriety, whether intentional or due to negligence.
- Fraud and embezzlement.

Financial risks

- Risks related to revenue, income streams, expenses, allocation of expenses, and monitoring and management of expenses.
- Risk that the organization runs out of money. Negligence is all it takes for this to occur.

Stakeholder goodwill risks

- Legal risks can negatively impact stakeholder goodwill toward the organization, as legal problems are rarely good public relations.
- The reputation of executives and directors can be affected by being known as the leaders who failed the organization.

Operational risks

- In implementing the organization's day-to-day activities.
- In securing organizational assets (e.g., securing offices and assets after hours and during interactions with third parties, vendors, and suppliers).
- In having inefficient operations (via-a-vis the timeliness, accuracy, authorization, and completeness of activities in question).
- In assessing whether services pose a risk—either in their transport or their operation—to employees, volunteers, or third parties; managers must determine.

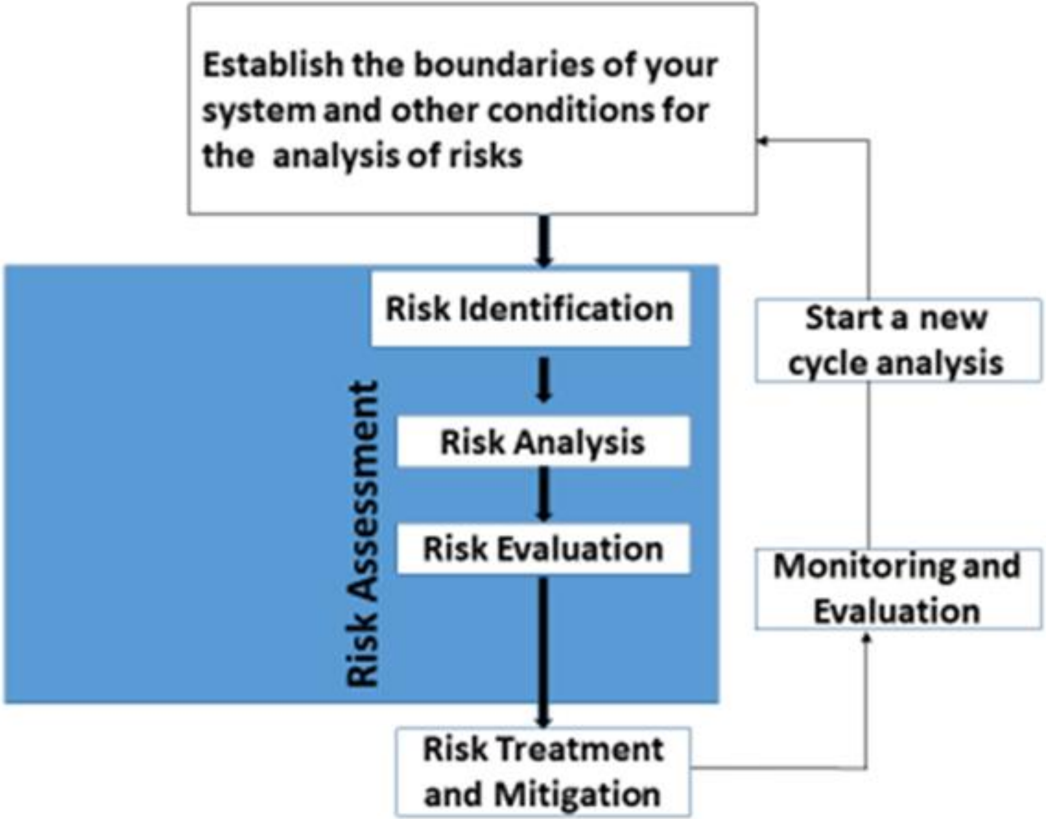
Fundraising risks

- Impersonation of a nonprofit organization by corrupt parties to host fundraising events and keep the profits.
- Potential loss of donors "If fraud is discovered; the organization risks losing donors' trust and could be held liable for the losses incurred by those who donated to the fake fundraiser"
- Failure to fulfill the obligation of nonprofits to protect their brand and logo.
- Need to monitor for any misuse of funds and prosecute any impersonators to deter future instances of fraud.
- Need to process elements, authorization of per diems, claims, etc.

Theft risks

- Theft can be perpetrated by an employee, a third-party vendor, or even a client.
- Any financial loss may impair an organization's ability to deliver services or otherwise fulfill its core functions, especially if the organization has limited resources and liquidity.

Session 4: **Risk Management Process**



Step 1: **Identify Risks**

Identify risks through one-on-one interviews or group work in your organization. Once you have identified them, use your handout copy of the table below to **categorize** them (e.g., insufficient resources, lack of compliance, lack of skills).

RISK CATEGORY	RISK FACTOR/CAUSE	RISK DESCRIPTION
Compliance/statutory	Exposure of the organization to stakeholders/donors	Inadequate compliance systems in place, which may result in loss of donor trust
Financial/funding	• Inadequate revenue collection • Lack of control procedures	• Theft of money • Failure to effectively manage the organization's resources, which may result in financial loss

Step 2: **Analyze and Evaluate Risks**

After identifying the risks, assess, measure, and plot their severity using the heat map below.

Impact on the Organization	**Medium**	**Medium**	**High**	**Critical**	**Critical**
	Low	**Medium**	**Medium**	**High**	**Critical**
	Low	**Low**	**Medium**	**Medium**	**High**
	Low	**Low**	**Low**	**Medium**	**Medium**
	Low	**Low**	**Low**	**Medium**	**Medium**
	Low	**Low**	**Low**	**Low**	**Medium**
Likelihood of Occurrence					

Conducting analysis

1. Assess the likelihood and consequence of each risk by asking what the chances are of this happening.
2. Determine whether the overall level of risk is low/unimportant, medium/minor, high/moderate, or major/critical.
3. Discuss the use of “impact” and “likelihood.” Develop a risk profile, including the probability (chance) and consequence (importance) of a risk.
4. Assign a risk owner (i.e., a senior person to be responsible for actions and outcomes needed).

Step 3: **Assess the impact on organizational ability.**

Use the heat map (rating/scoring matrix) to identify the impact and organizational vulnerability of each identified risk:

- Critical
- High
- Medium
- Low

Step 4: **Respond to Risks**

Risk strategies and/or measures are there to prevent, deter, or detect risks; and if they are adequately implemented they ensure that the risks are effectively addressed. Refer to the table below for categories.

Avoid Risk	Stop, prevent, eliminate, or avoid the risk event
Manage Risk	Reduce the risk impact, the risk vulnerability, or both, in a cost-effective manner that reduces and minimizes the risk exposure
Transfer Risk	Reduce the likelihood or impact of a risk by transferring or sharing part of the risk
Accept Risk	Allocate risk mitigation or management resources to cover the risk

Evaluate your risks:

1. List your risks in order of priority.
2. Determine if you can manage your risks or need to escalate them to the board or key stakeholders (e.g., prime partner, donor).

RISK LEVEL	ESCALATION AND RETENTION GUIDELINES
Extreme	Escalate to board
High	Escalate to ED/Head of Operations; risk level is unacceptable
Medium	Escalate to relevant senior management; state actions
Low	Monitor and manage at a low officer level; operational level

Step 5: **Risk Treatment, Monitoring, and Evaluation**

a. Identify and implement the most appropriate means to mitigate your risks.
b. Identify risk treatment options (treatment refers to what you do about it).
c. Select the most suitable option.
d. Develop treatment plans.
e. Implement plans and review progress.

Monitoring and evaluation

a. Set up an ongoing review, report, and monitoring mechanism.

b. Include an annual review of your risk management policy, process, and alignment.

c. Prepare a monthly or quarterly report for the board on progress with extreme and high risks.

d. Set up monthly or biweekly management meeting cycles.

Board’s role in managing the risk process

- Sets the tone at the top in establishing transparency and consistency.
- Communicates its vision and commitment to risk oversight.
- Defines the board’s risk oversight role.
- Fosters a risk-intelligent culture.
- Helps management incorporate risk management into the overall strategy.
- Helps define the organization’s willingness to accept risk.
- Executes the risk management process.
- Benchmarks and evaluates the risk management processes.

Risk Register

- A Risk Register or log is a project management tool created to help managers document, track, and address risks through preventative controls and corrective actions.
- This register is normally created before a project officially begins and is regularly reviewed "and updated throughout the life of a project through deliberate risk monitoring and control."
- Local partners should treat risk management as an integral component that affects how the organization measures and rewards its success.

Risk management considerations:

- Customize your risk management approach to suit your organization's particular needs.
- Designate a senior manager with accountability and authority to manage your risks and open discussion with others in the organization.
- Develop a Risk Register: Identify your risks, keep a record, and have a plan to manage the risks.
- Examine some of the core risk-management issues unique to you.
- Use a "lessons learned" approach to address risk management in a non-threatening way.
- Explore available opportunities to improve how you manage risk.
- Connect and network with other local partner board members and senior management working on risk management issues; build synergies for improvement action plans that will yield results for all.

Areas for the board to watch:

- If management does not understand their role in risk management and the role of internal auditors.
- If management is not covering the key risks in the strategic plan.
- If management has not employed the right people with the right skills to carry out risk assessments and deploy risk management strategies within the various organizational areas.
- If management and staff are insufficiently trained in risk management and internal audit efforts.
- If the organization fails to keep up with changes in the outside world and the risks posed by those changes.

Common Challenges in the Risk Management Process

- Lack of a proper risk management program and appropriate organizational structures for risk management.
- Failure by the persons charged with managing the organizational risk process and understanding their roles and responsibilities in risk management.
- Failure by other staff members to understand their roles and responsibilities in risk management.
- Lack of support by the board of directors and senior management for proper risk management programs in the organization.

Example of a risk management structure:

TECHNOLOGY	
Risk governance	· Board of Directors · Board Committees
Risk infrastructure and management	· Executive Management · Heads of Departments · Internal Audit · Risk Management
Risk ownership	· Departments · Supporting Functions

Summary

- Help identify risks within your departments and or area of work.
- Help identify risks in other sections.
- Be proactive and report identified risks to the senior manager or the correct board/management committee.
- Propose mitigation measures to address the risks.
- Follow these instructions according to the organization’s policies and procedures.

MODULE FOUR

Board Performance Management

Objectives

- Introduce key areas for the organization to enhance its performance of board governance.
- Establish clear roles and responsibilities for transforming the organization’s governance.
- Explore how the board will maintain visibility, processes, and reporting mechanisms.
- Monitor and evaluate the organization’s activities to ensure effectiveness.

EXERCISE

As a board and executive management, how are you going to improve your organizational processes covered in this training?

Session 1: **Board Governance Framework**

- This session presents the board framework tool that will take you through the key performance and governance areas. This allows the board of directors to look at their organization holistically and examine all areas where they can improve on areas of weakness.
- The framework facilitates the avoidance of risks in performance, people management, and in all performance management areas and bottlenecks.

Board Governance Framework

- Enables the board and executive leadership to have a focus,
- Allows everyone to fulfill their roles,
- Gives the board an opportunity to test out the effectiveness of its governance structure, and the mechanisms by which governance is implemented,
- Ensures that board members explore any inconsistencies, overlaps, and gaps that may lead to failure to enact governance policies that the board and management have put in place.

Roles and areas for board focus

- Board oversight and responsibilities
- Determine the skills and knowledge that the board requires and compare to its
- current composition
- Engage management in providing the information that the board requires to exercise governance and risk oversight
- Advise management on policies that ultimately influence how governance is conducted

Important questions to consider

1. What areas should we be spending time on?
2. How do we align the board and management on priorities?
3. How do we make decisions?
4. How do we communicate decisions?
5. How do we ensure that decisions are followed up or escalated to the board?
6. How do we mitigate risk in everything that happens in the organization?
7. How do we position the board as a strategic partner with management?
8. What should we specifically be doing in the critical areas of oversight, such as strategy and risk?
9. How does the work of the committees relate to and differ from the work of the full board?

Board governance performance areas

High level focus areas	These areas are very important to consider regarding governance, performance, strategy, integrity, and any people issues.
· **Governance** · **Performance** · **Strategy** · **Integrity** · **People**	· How can we improve? · Does everything look as it should? · Who is responsible? · Who needs to be informed and act on it?
Board monitoring of executive management operations and delivery areas	The board should regularly check with executive management about planning, operations, reporting, culture, and risks faced by the organization.
· **Planning** · **Operations** · **Reporting** · **Culture** · **Risk**	· Why are we doing this? · This will help ensure that every tactic leads to improved performance. · Make a list of the key priority improvement areas. · Any other areas?

Next steps for managing board performance

1. Avoid a one-time process approach; ongoing processes are more effective.
2. Collaborate with senior leadership to introduce a variety of solutions at each stage of the focus area and consider individual skills and experience.
3. Decide what the board should look like (e.g., composition, diversity, gender mix).
4. Consider whether the board and organization represent and reflect the social and cultural diversity of your community.
5. Determine how well the board currently measures up.in terms of diversity.

Next steps for managing board performance

6. Conduct open, honest, and ongoing discussions about the makeup of the board and the extent to which it meets the organization's defined needs.
7. Finalize a bylaw/charter stating how long each board member should serve.
8. Evaluate each member of the board annually to determine if they have performed to expectations (See Board Evaluation Sample Form in appendices).
9. Identify the skills and capabilities you need on your board. (See the Board Skills Matrix)

Key Points

- **Accountability**: Great board members hold themselves and the organization accountable for advancing the mission.
- **Passion for the mission:** The board's passion is sincere and contagious, helping to promote others' enthusiasm about the mission.
- **Financial commitment:** Great board members demonstrate a financial commitment to the organization and provide access to others who can do the same.

Key Points

- **Big picture:** Great board members view the mission with a strategic, big-picture lens.
- **Inquisitive nature:** Great board members are not afraid to ask hard or frequent questions in striving toward progress.
- **Board Committees:** Great boards set up committees **to deal with specific performance issues that require specialized areas of expertise (e.g., finance and audit, human resources, resource mobilization).**

QUESTIONS?

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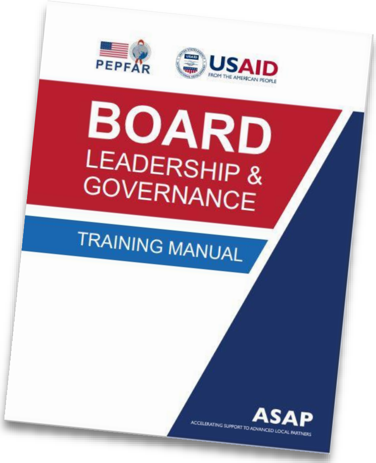

THANK YOU FOR ATTENDING.

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