



From Design to Realization

INTENTIONAL GOVERNANCE

Beyond the Bottom Line Seminar
Nashville, TN, March 26, 2013
Presenter: Lowell C Cooper

Legal Notice and Terms of Use

Copyright 2013 by the General Conference of Seventh-day Adventists®. All rights reserved. The information is provided for training purposes only and is not intended nor should it be used as legal counsel. This program may not be used or reformulated for any commercial purposes; neither shall it be published by any person or agency other than an official organizational unit of the Seventh-day Adventist® Church, unless prior written authorization is obtained from the General Conference of Seventh-day Adventists® Office of Global Leadership Development. Subject to the foregoing terms, unlimited permission to copy or use this program is hereby granted upon inclusion of the copyright notice above. "Seventh-day Adventist" and "Adventist" are registered trademarks of the General Conference of Seventh-day Adventists® and may not be used by non-Seventh-day Adventist entities without prior written authorization from the General Conference. Use of all or any part of this program constitutes acceptance by the User of these terms.

Why board processes matter:

1. Most leadership training is for individualized positions of responsibility. Most major decisions are made in groups.
2. Institutional success is ultimately the responsibility of the board/exec committee.
3. Effective group decisions do not arise spontaneously. They result from deliberate designs in structure and social dynamics.
4. Good governance builds membership trust.

The most important
human resource for the Church is
TRUST



Two SDA governance systems:

Ecclesiastical system

- "Executive Committee"
- Each entity part of a chain of organizations
- Many employees--voting members of exec comm
- Ex Com chair—internal
- 3 officers accountable to Exec Comm
- More involved—mngmnt
- Unincorporated status

Institutional system

- "Board of Trustees"
- Each entity a 'stand-alone' organization
- Few employees—voting members of board
- Board chair—external
- CEO primarily accountable to board
- Less involved—mngmnt
- Incorporated status

The Bottom Line

- Both systems can function effectively
- Effective functioning of the system requires:
 - Skilled leadership in group decision-making
 - Group members with diversity of competencies appropriate to the business
 - Intentionality about mission

Our challenge:

"...there is one thing all boards have in common, regardless of their legal position. They do not function."

—Peter Drucker



Board diseases:

(Larry Walker, *Trustee*, September 2011)

1. **Agendasclerosis**—clogging of valuable meeting time with unproductive activity
2. **Dialog deficit disorder**—leads to irritable trustee syndrome
3. **Knowledgedystrophy**—making decisions without sufficient information

Board diseases: (cont'd)

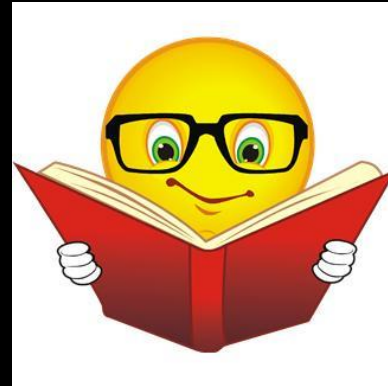
4. **Successionitis**—lack of long-term governance succession/development plan
5. **Leadershippresbyopia** (also missionmyopia)—short-sighted mission, cloudy vision

What good boards do

1. Shape mission and strategic direction
2. Maintain SDA identity of organization
3. Establish key policies and strategies
4. Select, develop, and evaluate officers
5. Ensure adequate financial resources
6. Build/enhance organization's reputation
7. Provide adequate risk management
8. Assess performance against mission
9. Improve board performance

10 Commandments about boards

1. Thou shalt appoint boards having competency-based membership.



Bylaws generally do not address skill sets required among trustees.

General practice has been to focus on employee/laity, proportional representation and gender balance.

Encouraging change...

- Administration may need to suggest to Nominating Committee the range of competencies needed.
- Governance committee of the board adopts trustee competency grid for use in identifying potential trustees.
- Constituency session nominating committees charged with responsibility to include trustee competencies in board nomination process.

Director competency

Personal

- Reputation (integrity)
- Time and commitment
- Objectivity in thinking
- Ability to function beyond 'self-interest'
- Team member or soloist
- Social behavior

Professional

- Training/education
- Experience
- Skill and judgment

Trustee Competency Matrix

Trustee Name	Competencies										Characteristics							
	Church Str & Pol	Higher Educ	Health Care	Business	Finance/Invest	Strat Plan	Legal Affairs	Human Res	Gov't Relations	Info Tech	Community	Philanthropy	Social Behavior	Personality	Time	Commitment	Gender	Ethnicity

10 Commandments about boards

2. Thou shalt conduct trustee orientation and on-going education.



What trustees need to know:

- Selection process and term of service
- Expectations of trustees
- Organization's mission/purpose/policies
- Organizational chart(s)
- Constituencies served
- Existence of corporate documents
- Protection against director liability
- Director/member rights—access to management and records, attendance at meetings, right to speak and vote

Expectations of trustees:

Unless new trustees receive orientation it will take several board meetings before they begin to understand their role and how to contribute.



Treasurer's job description (GCWP)

- A co-officer
- Reports to Executive Committee after consultation with the President
- Receive, safeguard and disburse funds in harmony with Exec Comm actions
- Provide financial info to President, Executive Committee and division.

Treasurer's functions:

- Custodian of funds
 - Safeguarding
 - Knowing where funds are/how used
 - Producing timely financial statements
 - Preparing realistic budgets

Treasurer's functions:

- Inform Executive Committee
 - Provide financial statements
 - Interpret financial statements
 - Educate members re: financial condition
 - Counsel on cost and feasibility of proposed actions

Treasurer interactions

- Time (quantity and quality) to present information to Committee
- Written narrative comments accompany circulated statements
- Take into account the level of financial understanding among members

Treasurer interactions (contd)

- Provide financial forecasts
- Look at trends over longer periods of time (not just current month/year)
- Portray use of funds not just amounts (admin, employees, education, evangelism, insurance, etc.)
- Use financial consultants

Treasurer interactions (contd)

- Be an active member of the officer team
- Be available/accessible to dept dirs
- Coach and mentor local conf treasurers
- Earn the trust of committee members
- Guard against 'possessive' attitude with respect to organization's resources
- Prepare for emergencies

Treasurer interactions (contd)

- Explain the use of internal controls
- Strive for 'clean' audit opinions
- Become known as a trainer of young financial leaders
- Be careful how you say "No"

Expectations of trustees: (Loma Linda boards)

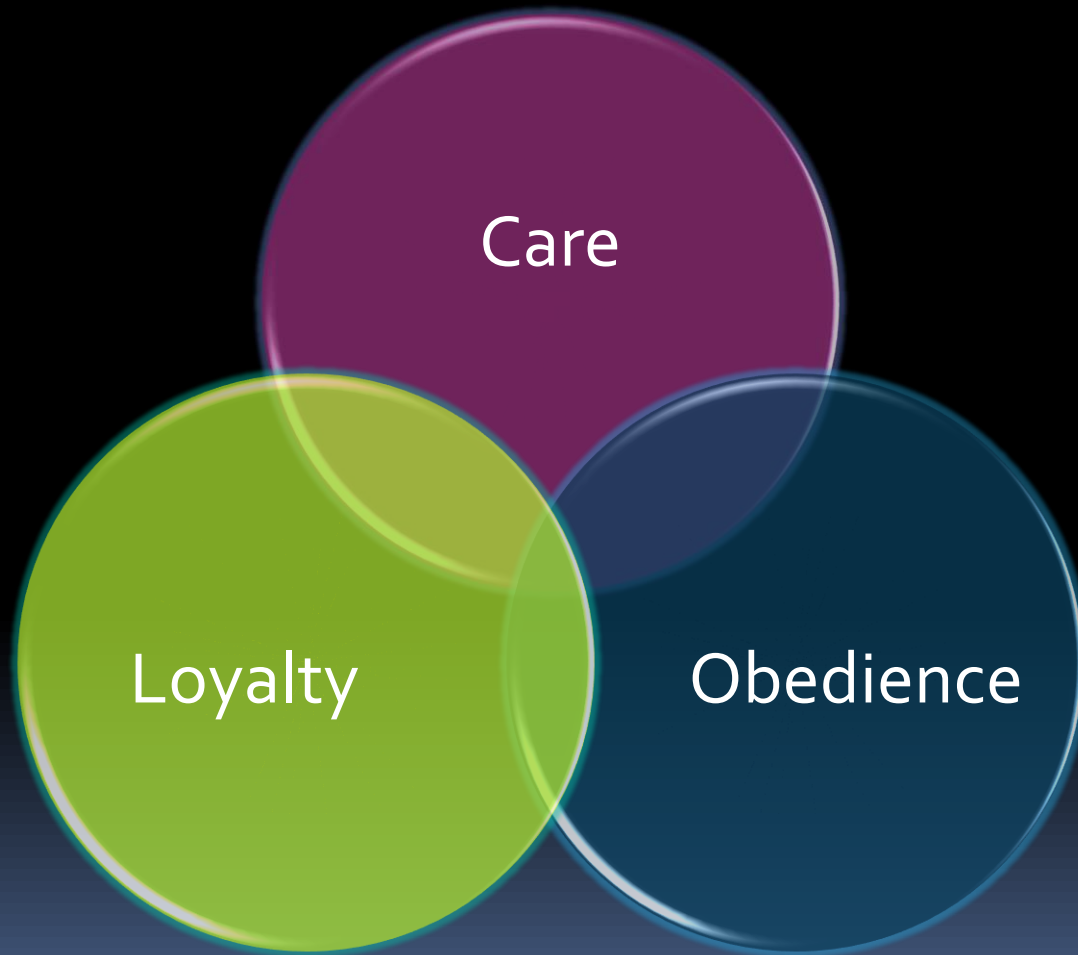
1. Be active and supporting members of a local Seventh-day Adventist church.
2. Commit sufficient time to become oriented to trustee responsibilities and to be an informed participant in governance decision-making.
3. Attend Board meetings regularly (4/year). Two consecutive unexcused absences are automatically considered to be a resignation.

4. Attend and participate in periodic special events, including the quinquennial membership meeting.
5. Serve as a member on a Board committee(s).
6. Review agenda materials sent in advance of Board meetings and be well prepared for meetings.
7. Contribute to Board discussions and decision-making.

8. Support Board decisions and demonstrate a commitment to teamwork.
9. Positively promote the work of the organization and advocate for its interests.
10. Comply with the organization's Conflict or Interest Policy.
11. Assist the Board in evaluation of its performance and a trustee's own involvement.

12. Serve without compensation.
13. Attend, at least once per quinquennium, a Board-approved off-campus educational seminar/conference.
14. Participate in institutional support through personal commitment of resources and through the encouragement of others to actively support the organization.

Fiduciary obligations of trustees



The duty of care

- Refers to the level of competence expected
- Common standard: "ordinary prudent person"
- Duty to attend meetings regularly
- Duty to show independent judgment in voting
- Duty to be informed
- Duty to rely on/delegate to trusted sources
- Duty of diligence (perfect judgment not required)
- Duty of risk management ...

The duty of loyalty

- Corporate position not for personal advantage
- Standard of faithfulness to the organization
- Undivided allegiance when making decisions
- Duty of loyalty breached when members use organizational property for personal purposes
- Maintaining confidentiality of privileged info

The duty of obedience

- Making sure the organization remains obedient to its purpose and role (i.e. faithful to SDA mission, beliefs, culture, policies and practices)
- Duty of compliance with laws
- Fulfilling commitments, including previous ones

10 Commandments about boards



3. Thou shalt make decisions and assess performance in light of the organization's mission, vision, and values.



Mission

Defines fundamental purpose

Vision

Values

Mission

Defines fundamental purpose

Vision

Defines future state

Values

Mission

Defines fundamental purpose

Vision

Defines future state

Values

Defines culture and priorities

10 Commandments about boards

4. Thou shalt focus on the future while learning from the past



- Use the



more than the



3 Windows on the Board Agenda

1. Window to the past

- Minutes of last meeting
- CEO report (written summary preferred)
- Financial statements



3 Windows on the Board Agenda

2. Window to the present

- Administrative or staff appointments
- Policy approval
- Board member education
- Reports from various board committees



3 Windows on the Board Agenda

3. Window to the future

- Reviewing/updating strategic plan
- Capital needs and planning
- Succession planning/leadership development



"Long range planning does not deal with future decisions. It deals with the future of present decisions."

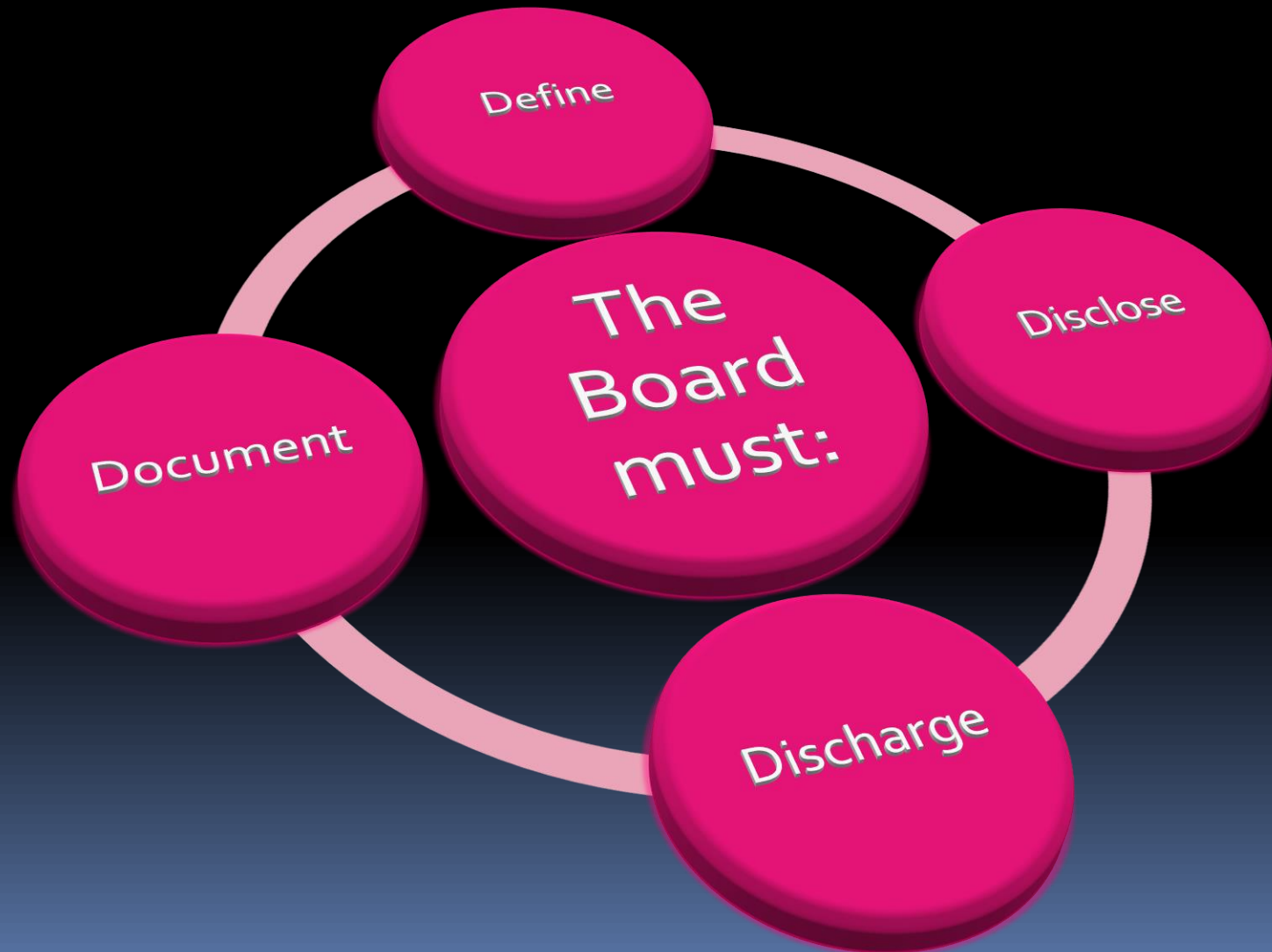
—Peter F. Drucker (1909 - 2005) U.S. management consultant and author.

10 Commandments about boards

5. Thou shalt manage conflicts of interest.



Conflict of Interest



Independent director/conflict of interest

Independent director

- A structural matter
- Director's positional relationship to the organization

Conflict of interest

- An episodic matter
- Director's potential for bias in a specific decision

10 Commandments about boards

6. Thou shalt act in a timely manner



and record decisions.



Board Minutes:

- Accurate, official and legal record
- Front line of defense—“Where was the board?”
- Offer guidance for future board action
- Document compliance with fiduciary duties
- Contemporaneous evidence in regulatory or judicial proceedings
- Provides summary for trustees not present

10 Commandments about boards

7. Thou shalt schedule and hold meetings regularly.



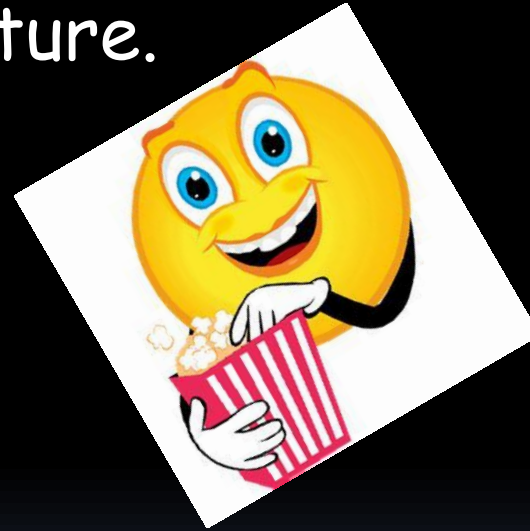
- Board calendar - dates known at least one year in advance
- Calendar of annual agenda items
 - Items at each meeting
 - Yearly items
 - Trustee education

Types of Board Sessions

- Regular sessions
 - Cover routine and general institutional matters
 - Administrative invitees present
- Executive sessions
 - Only board members and those requested by Chair or administration are present
 - Used for sensitive matters when open discussion is needed
- Privileged sessions
 - Legal Counsel present
 - Use for items where protection of information from discovery in litigation is needed
 - Only board members may be present

10 Commandments about boards

8. Thou shalt establish an efficient board committee structure.



Committees—Board “Workhorses”

- Enhance board effectiveness & efficiency
 - Break down complex issues/tasks
 - Perform groundwork needed by board
 - Ensure issues discussed thoroughly
 - Engages members' professional skills
 - Can be ad hoc or standing



Most Common Board Committees:

- Finance
- Development
- Trustees/Nominating/Governance
- Executive
 - meets between boards to address special issues
- Academic Affairs
- Audit
- Student Affairs/Campus Life
- Buildings and Grounds
- Investment

Association of Governing Boards 2010 study (listed in descending order)

Well-Functioning Committees:

- Written charter
 - Purpose and authority
 - Committee's responsibilities
 - Desired competencies of those who serve
 - Reporting requirements
- Balance role of committee & board
 - Work on behalf of board
 - Report information to board in way easy to grasp
 - Board shouldn't re-hash committee's work
- Well-managed information flow
 - Don't overwhelm with information

10 Commandments about boards

9. Thou shalt maintain an effective boardroom culture.





Strategy/Procedures/
Programs/Policies

Organizational
culture

Elements of boardroom culture

Attitude

- Commitment to excellence
- Enthusiasm about mission

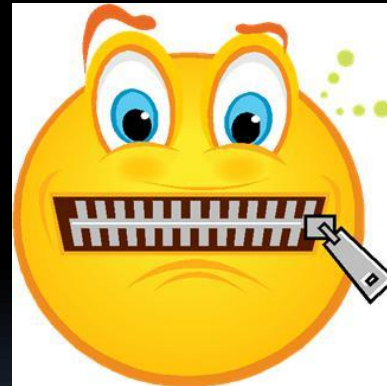
Attention

- Effective use of time
- Focus on strategic issues

Atmosphere

- Safe to talk
- Good group dynamics

"I really had some strong convictions on that matter but I didn't say anything about it..."



"...the highest-performing companies have extremely contentious boards that regard dissent as an obligation and that treat no subject as un-discussable." —Sonnenfeld



Elements of boardroom culture

Attitude

- Commitment to excellence
- Enthusiasm about mission

Attention

- Effective use of time
- Focus on strategic issues

Atmosphere

- Safe to talk
- Good group dynamics

Altitude

- Governance not management
- Big picture/future perspective

10 Commandments about boards

10. Thou shalt pursue excellence by indentifying where goverannce improvements can be made.



The Board must assume responsibility for itself—its own effective and efficient performance. This includes its structure, design, direction and discipline.

Board Self-Evaluation:

“The purpose of engaging in a self-assessment process is to give the board an opportunity to reflect on how well it is fulfilling its responsibilities and to identify opportunities for continuous improvement.”

- Elements of Governance: Board Self-Assessment, A Core Responsibility, The Governance Institute

Board Self-Evaluation:

- In era of accountability, must show continual improvement in board operation
- Should be done on a regular cycle
- Should identify:
 - Areas of excellence
 - Areas for more discussion
 - Top areas to address for improvement
- Follow-up action plan developed
- Monitor progress

"999" Plans

What can be done to improve Board functioning in the next 9 days?

What can be done to improve Board functioning in the next 9 weeks?

What can be done to improve Board functioning in the next 9 months?