



Non-Profit Leadership – Board Direction



Preparing for the Future

Do or die for non-profit boards

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The most important task of a non-profit board is to prepare its organisation for the future

Life for non-profits is changing rapidly, and in many ways dramatically. Non-profit boards face a future that looks nothing like the past - one in which they must deal with changes in government policy, increased regulation and accountability, rising costs, higher funder expectations, the need to prove impact, systemic change, tougher competition and the impact of digital innovation.

Giving back, making a difference, improving lives, protecting and strengthening their organisations - these are some of the things non-profit directors care about. How they achieve success going forward is the question though, given the brave new world unfolding before them.

A high performing board knows change is inevitable. Non-profit directors must embrace coming change and alter the way they work, in order to ensure their organisation is ready to meet the challenge ahead. Broadly speaking, this involves:

1. Forward thinking - spending more time looking at the world outside the organisation to understand what the organisation needs to do to remain relevant and achieve its mission.
2. Aligning people and practices – ensuring the organisation is ready and able to deal with a very different set of challenges and opportunities.
3. Creating a platform for engagement – building the organisation’s ability to effectively engage with funders and stakeholders in an increasingly connected world.

At Koda, in our work with non-profit boards we have observed a growing appreciation of the need for change. Many of the responses we have seen suggest boards are looking for guidance in relation to how they should move forward. This paper frames the strategic agenda facing non-profit boards, sets out possible solutions to key issues and offers practical steps by which those solutions can be implemented by a forward-thinking board.

“Change is the law of life. And those who look only to the past or the present are certain to miss the future.” – John F. Kennedy

1. *The forward thinking board*

The issue

Boards often spend too much time on internal issues and operational concerns; this approach does not help non-profits prepare for the future.

It is difficult to think of a time when it has been more important for boards to look beyond the horizon. The challenges are numerous; revenue, for example, is a real concern for many non-profits - particularly those who realise that government funding is in decline and philanthropy is not big enough to fill the gap.

Adapt or perish is not an exaggeration for many non-profits given what they face in terms of competition and change. Standing still is not really an option. To adapt to the times, organisations must evolve and boards must change the way they work.

Good governance is a source of competitive advantage, but too often governance is relegated to passive oversight and ticking off fiduciary obligations. The forward thinking board is a board that takes a professional approach to its work. It meets its obligations, but more than that, it accepts accountability for the state of the organisation, for its own performance and for guiding the organisation and its people in a *commercial* manner. The *commercial* mindset is not a *for-profit* mindset; it represents an astute and dynamic approach that recognizes non-profits are not immune from market forces and must compete to be successful.

The solution

Boards must spend more time looking at the big picture.

Understanding and planning for the future

Boards must be more focused on the world outside their boardroom and on developing strategies to succeed in it. They should be able to help their organisation imagine an alternate reality. In many non-profits this role is left to the CEO, however, most non-profits cannot access the kind of resources for-profit executive teams employ when planning for the future, so non-profit boards need to step up and support their executive team.

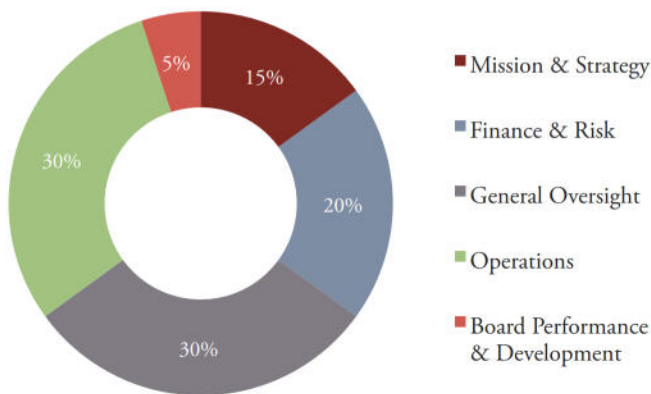
“Strategic leaders must not get consumed by the operational and tactical side of their work. They have a duty to find time to shape the future.” - Stephanie Mead, Centre for Management & Organization Effectiveness

Defining the board's contribution

The role of the board should be clearly defined. If necessary, the board should be prepared to negotiate a change in its role if it no longer serves to *actively* support the organisation in achieving its strategy and mission. This is something that constitutes active risk management - versus the passive risk management evident in many boardrooms today.

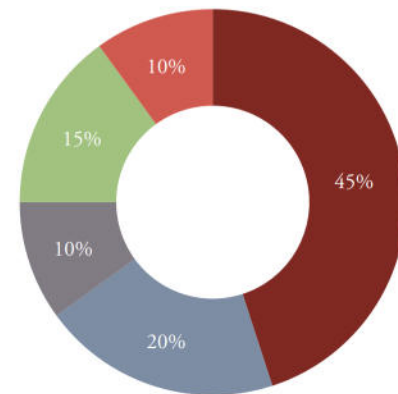
Directors should be required to study the external landscape and this should be built into the board's agenda to reflect its importance. The pie charts below illustrate how time can be reallocated to help achieve a more forward thinking and dynamic board:

Typical Non-Profit Board Agenda



Source: Koda Capital

Forward Thinking Non-Profit Board Agenda



Source: Koda Capital

Practical steps to consider

- (Re)define the role of the board - ensure it aligns to mission and strategy
- Review your agenda, meeting cycle and timing of board meetings
- Make time in every meeting agenda to discuss the external environment and formulate strategic plans in response to market conditions
- Bring in external presenters to help frame discussions and possible solutions
- Organise an annual board retreat dedicated to future-proofing the organisation
- Conduct a review of your funding mix – what is happening to it, what is growing and what is under threat? Are there opportunities to create new revenue streams?
- When making decisions, routinely ask 'Does this decision take us closer to, or further away from, achieving our mission and strategy?'

2. Aligning people and practices to the market

The issue

The future requires different people, skills and attitudes. Many non-profits lack the right mix for the task ahead.

Aligning people capability to the demands of the emerging external market is a critical task for non-profits. Sometimes this task means recruiting and sometimes it means upskilling or re-focusing people already working for the organisation.

This process must start with the board. One of the board's primary tasks is to recruit a CEO with the ability to lead the organisation through the next phase of its life. To do this, directors must acquire for themselves a deep understanding of external forces shaping the future of the organisation and the sector it works in.

If a non-profit is going to bring its full resources to bear - as it must - this process must also involve the board reflecting on its own contribution. This is something that needs to happen at the individual and collective level. An effective non-profit board is one that works as a *team*, not a *group* drawn together only by a cycle of formal meetings. And effective directors are people who actively and keenly bring their time, talent and treasure to the table, for the benefit of the organisation.

The solution

Find the time to plan how people, skills and contributions can be re-aligned to future needs.

Building a better board

A skilled, well-connected, active and hard-working board is one of the biggest competitive advantages a non-profit can have. Every board should continually be looking to reinforce its ranks.

An opportunity to serve is an honour and confidence around this fact can help non-profits attract good directors. Having a clear idea of the board's current *and* future requirements is also essential to bringing on the right people, just as it is for bringing out the best in existing people.

As boards focus on the performance of the CEO, so should they focus on their own performance. Getting the most out of board members is an issue for many organisations. The future simply does not support the idea that non-profit directors can act as passive overseers.

As management guru Peter Drucker said, "*Rank does not confer privilege or give power.*

It imposes responsibility."

Leading from the front

The Chair of a board is in a perfect position to foster the right internal dialogue about what needs to be done to create a more effective board. The Chair's first task might be to encourage open, robust debate – generally and about what needs to happen to create high performance.

What needs to happen thereafter will vary from board-to-board and director-to-director, but there are obvious things people can do to boost their own performance and contribute to the success of the organisation. These things can be as simple as making a personal commitment to attend, and actively contribute to, each meeting.

Other obvious things directors can do for the benefit of the organisation they serve include opening up their networks, making themselves available for events, making donations (if the organisation seeks donations) and challenging situations rather than remaining passive.

The role of the board in fundraising is a particularly important and contentious one for many non-profits. Getting this role agreed (by establishing a set of principles to work towards) is likely to be a key task.

Introducing diversity and representation

A board is more effective when it is able to draw on a wide variety of perspectives. True diversity and representation in the boardroom increases a board's field of vision and acts as a prism through which it can clearly view complicated and multi-faceted issues.

The reality is that adequate diversity for a non-profit board will often extend beyond gender, to cover things like age, ethnicity, background and life experience.

If lack of adequate diversity is an issue, it should be made an agenda item. Dedicating time to diversity and representation in this way will help the board develop a consensus view on what would be ideal and give the organisation something to work towards.

“We need to be looking over the horizon to diversity beyond just gender at the board table, and also to diversity in the senior ranks.” – John Brogden, CEO, Australian Institute of Company Directors

Practical steps to consider

- Develop a skills matrix to help with recruiting and professional development
- Create a comprehensive on-boarding process for all new directors and executives
- Commission an independent board review and interview individual directors
- Use the role of the Chair to encourage open communication and robust debate
- Actively and confidently seek well connected, suitably-skilled and hard-working people to join the board – joining the board is a privilege and an opportunity
- Actively contribute – agree a set of principles and communicate expectations to new directors early in the recruiting process
- Identify where and how diversity can create value for the organisation; consider setting diversity targets to increase commitment

3. Creating an organisation built on engagement

The issue

The future requires non-profits to be open, transparent and collaborative, yet most non-profits lag behind in terms of their ability to effectively engage, connect and respond.

Boards must prepare their organisations for greater transparency and immediacy. The public increasingly demands it. Similarly, funders great and small increasingly want and expect to engage directly with those they support. The issue of engagement is such an important one that it may make the difference between an effective non-profit's success and failure.

The future also demands collaboration. This demand is partly driven by funder pressure, but it is also driven by changes in the ecosystem in which non-profits operate. Non-profits can no longer expect (or be expected) to solve social problems in isolation. More information is available to more people and, with greater visibility, issues like inefficiency and duplication become more obvious. As well, people and organisations across society are more connected (at least on the surface) and consequently, barriers to communicating and working together are falling away. With the help of technology, it is becoming easier to not just work together, but to see who *should* be working together.

The solution

Place a high value on building the capacity to engage quickly, cheaply and effectively.

Opening up

At a minimum, it is necessary to adopt an approach based on continually increasing organisational transparency. This might involve many changes and a focus on preparation, to ensure the organisation is ready to respond to external scrutiny. External scrutiny is increasingly likely in the future and speed of response will be almost as important as the response itself. Boards should take steps to prepare for media scrutiny and trial by social media. For example, boards might examine key policies, positions and programs. Likewise, assets, liabilities and other commitments should be examined to ensure they fit with the organisation's mission and within acceptable ethical limits.

Non-profits must also dedicate more resources to proving their impact. It is no longer enough to be engaged in a worthy cause, it is necessary to demonstrate how you make a positive difference. Non-profit board members should see all funders as investors who need to be convinced. Consequently, adopting a framework to measure and communicate impact should be a high priority, as should building the organisation's evidence base.

Collaborating

For a variety of reasons, boards need to build collaboration into the DNA of their organisations. Collaboration is necessary for the sake of efficiency and effectiveness and because funders now expect it. Boards need to ask their executive teams to look for opportunities to generate additional value through collaboration and sharing. Popular areas for collaborative work include merging back office functions, forming strategic partnerships with for-profits and other non-profits, investigating mergers, sharing data with other organisations and banding together for advocacy purposes.

Building the capacity to effectively engage with people outside the organisation is a critical priority for non-profit boards to get right. Directors are not exempt from the saying that everyone in a non-profit works for the sales and marketing department.

Investing in the power of digital

Technology is now so powerful and pervasive that ‘switching to digital’ is no longer a choice, but a necessity for the vast majority of non-profits.

“Every business is a digital business” - Paul Daugherty, Chief Technology Officer, Accenture

Consumption and communication are both going digital at a rate of knots. Investment in technology - and its application – must be considered not so much a strategy, but as something essential to remaining viable in the medium-to-long term.

For a non-profit, it is a case of ‘your website is your shop front’. It is important to make an ongoing investment in making a good first impression. This investment extends beyond the organisation’s website to its overall online presence. By way of example, potential funders are now as likely to assess charitable non-profits using the ACNC’s website as they are the charity’s own website.

A truly forward-thinking approach to engaging supporters and stakeholders is to harness the potential of digital technology up and down the organisation. Learning to use the power of technology as a tool to reach and build relationships with people who in one way or another have the potential to help advance a particular cause, is a responsibility of the non-profit director. Only then can they help their organisations develop successful strategies based on digital technology.

One final investment to consider in the digital sense is an investment in IP and data storage. Non-profits generate IP and often collect data with a social and/or commercial value. Thanks to digital innovation, non-profits now have more opportunity to build and leverage this value than ever before. Data and IP that might have been shared locally can now be shared globally. This fact alone has the potential to help non-profits advance their mission far beyond traditional boundaries and it also represents a new opportunity to generate much needed revenue.

Practical steps to consider

- View all funders as investors who expect a return
- Spend time with funders, to understand what a return means to them
- Begin a process by which the organisation can articulate its impact and consider adopting a framework for formally measuring impact
- Identify all key stakeholders and assign individual responsibility for maintaining regular and productive communication
- Prepare for media scrutiny and questions from key supporters by role-playing potential challenges in relation to policies, programs, assets and liabilities, etc.
- Commit to developing a strategy that exploits digital technology; look for cost savings, efficiencies and opportunities to extend reach and improve engagement
- Invest in the organisation's website and budget for web development
- Conduct an online audit to assess the organisation's online presence; what do others see? Does it present the organisation in the best possible light?
- Conduct an IP audit to establish the value of IP produced by the organisation

In conclusion

Change is coming to the non-profit sector and non-profit boards must respond, in order to prepare their organisations for the future.

Non-profits must quickly change the way they work in order to survive and succeed in a highly competitive sector that is evolving quickly.

Change must happen at all levels of the organisation and the board is no exception. Board members need to be prepared to work in a different way, as part of a cohesive team, and as individuals making an essential contribution.

Technology is perhaps the primary agent of change. Digitising non-profits so that they are able to take advantage of the seemingly limitless applications offered by technology is a very high priority, and one upon which a non-profit's future ability to effectively engage with supporters may well rest.

Key points for directors:

- 1. Spend more time shaping a strategic agenda based on the external environment and how it is likely to affect your organisation in the future*
- 2. Contributions and skill sets must be built around future needs*
- 3. Grow the organisation's ability to engage, connect and collaborate at all levels*

“Opportunity is missed by most people because it is dressed in overalls and looks like work.” - Thomas Edison



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David heads Koda's specialist Philanthropic & Social Capital team. His primary responsibility is providing strategic advice to charitable, non-profit, and philanthropic investors. In a 25-year private wealth management career David worked for Coutts and Merrill Lynch in the UK and held senior advisory and leadership positions at Perpetual, and JBWere, where he was a Managing Director and Head of Philanthropic Services. Since 1999 David has been a member of the Society of Trust & Estate Practitioners. He is a member of the Centre for Social Impact's advisory council, Impact Investing Australia's market building working group, and a Director of the charity BoardConnect. David also sits on the editorial advisory board of Generosity magazine. In 2012 David established a Public Ancillary Fund account to encourage philanthropy within his own family. In 2013 David attended Harvard Business School, where he completed the Governing for Non-Profit Excellence executive education course.

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We act as an investment adviser to philanthropic, charitable and non-profit organisations. We go beyond the provision of tailored investment services, to provide expert advice on best practice, governance, regulation, investment strategy and relevant trends in the sector.

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3. We will agree, in writing, the services we will provide and deliver those services to the standards we promise. Our clients will have access to the best solutions available - not just a list of products restricted by commercial relationships.
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