

# GOVERNANCE FRAMEWORKS IN THE NSW JEWISH COMMUNITY

Adopted by The NSW Jewish Board of Deputies and the Jewish Communal Appeal

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# Governance Frameworks in the NSW Jewish Community

Good governance principles are an essential component of good organisational leadership and management of organisations — whether they are for profit or not for profit.

Governance is specifically focused on delivering the organisation's mission in the most appropriate way, with due regard for legal requirements, accountability, stakeholder expectations and ethical considerations. When implemented well, governance principles ensure that an organisation is run in a way that achieves its objectives in an effective and transparent manner and ensures sustainability, succession, fairness and accountability.

As a communal organisation grows in terms of size and complexity, the need for governance grows. By building confidence and trust, good governance generates the credibility that allows not-for-profits (NFPs) to attract further funds by giving the community comfort that funds are being utilised efficiently and with adequate accountability. The not-for-profit sector has governance requirements that reflect the organisation's purpose or objectives, which are typically service, representation or advocacy based.

Principally, however, NFPs provide service to their community, and good governance should enhance and strengthen the NFP's capacity to deliver such service in a sustainable manner. Moreover, in a Jewish community, the traditional Jewish commitment to fairness, human responsibility and to the less advantaged in our community should underpin, and be reflected in, any governance principles that are adopted.

The variety and range of sizes of NFPs, from simple to complex, means that there can be no single governance framework that will be appropriate, without adaptation, for all of them. This set of governance principles is nonetheless proposed as a guide and stimulus to promote active consideration of what is appropriate for a particular organisation.

Constituents of the NSW Jewish Board of Deputies can consult the President of the Board in confidence about governance issues, as has been communal practice over many decades.

In the case of organisations that are members of the JCA there should be active engagement on governance matters through the annual allocations process. If organisations do not follow parts of the governance guide, they should be transparent in explaining why not.

The rest of this document is divided into the following sections:

1. Lay solid foundations for board and management
2. Strive for effective and appropriate board membership
3. Determine values and culture
4. Safeguard integrity in financial and social reporting
5. Approve and review policy
6. Develop strategy and manage risk
7. Manage and remunerate performance
8. Recognise the legitimate interests of stakeholders

## Principles of Governance

### Interpretation Notes:

An organisation's constitution takes precedence over these suggested principles. The adoption and practice of these principles, or an adaptation of them, where the organisation so decides, may require amendments to the organisation's constitution so as to ensure that there is consistency.

Corporate terminology is sometimes applicable to NFPs but often it is not. The word "board" should be read in what follows as referring to the board, committee of management or other governing body of an organisation and terms like "director", "chief executive" or "finance manager" should likewise be adapted in cases where they have no direct application.

### 1. Lay solid foundations for board and management

Organisations should establish and disclose the respective roles and responsibilities of the board, other committees and management (and to the extent necessary different levels of management)

The organisation's governance framework should be designed to:

- enable the board to provide strategic guidance for the organisation and effective oversight of management;
- clarify the respective roles and responsibilities of board members and senior management (where senior executives are employed by the organisation) in order to facilitate board and senior management's accountability to both the organisation and its members and stakeholders; and
- ensure a balance of authority, and adequate reporting, so that no single individual has unfettered powers.

## Recommendations to achieve good practice

**1.1. Organisations should draft a formal charter that establishes the functions reserved to the board, other committees and those delegated to senior executives; in particular the decision rights of the Chief Executive or the senior responsible manager and the President.**

Disclosing the division of responsibility assists those affected by organisational decisions to understand better the accountabilities and contributions of the board, committees and senior executives. It should also specify who is responsible (and if more than one person, in what respective areas) for representing or speaking for the organisation in public or to other organisations. The division of responsibility may alter with the evolution of the organisation and regular review of the balance of responsibilities is appropriate. This division of responsibility also ensures that directors and executives understand expectations of them.

As many new board members in community organisations may not have had a great deal of corporate experience, it is advisable to give formal appointment letters, or induction and roles and responsibilities documents, to directors setting out key terms, conditions, confidentiality obligations (a confidentiality agreement or undertaking should be signed) and other duties of their director role. Senior executives should have formal job descriptions and letters of appointment or contracts. Any roles and responsibilities documents should identify responsibilities to the NFP's clients/members/users and other stakeholders and to the broader community being served.

Whether or not formal appointment letters are used, an induction procedure should be in place for new directors and senior executives and all directors and senior executives should be made aware of their legal duty to act in the best interests of the organisation and how that duty works in the particular organisation. They should be provided with the organisation's constitution, board charter and a statement documenting delegated authority.

The board should, as part of its responsibility, establish that the organisation's strategic plan, organisational priorities and performance objectives are appropriate to the needs and mission of the organisation. The board should monitor implementation of such strategy so that necessary resources are available and being utilised as effectively as possible. The board should approve and monitor compliance with the organisation's budget and be provided by management with sufficient information to properly evaluate key risks inherent in the organisation's operations.

**1.2. Organisations should keep the process for evaluating the performance of the board and senior executives up to date and ensure it is implemented in a fair manner.**

The performance of senior executives should be reviewed regularly against appropriate measures, including key performance indicators.

To improve performance, the contribution of each board member, including the President, should, subject always to the constitution of the organisation, be assessed from time to time by the President or by an appropriate Life Governor, another widely trusted elder statesman of the organisation with no vested interest, or external consultant after confidential consultation with each board member. Tactful feedback should be provided in confidence to each board member by the individual leading the review so that each board member can assess his or her suitability for standing for re-election and/or can learn how to make a more useful contribution if continuing. If it is the President who reviews board member performance, the board needs to determine a mechanism to give feedback on the President's performance.

**1.3. Organisations should issue a governance statement in their annual report which should be available to donors and funders.**

This should include any governance charter adopted by the organisation as well as on an annual basis a statement that it has complied with its charter in that year and to the extent not, why not. An annual governance statement should be signed off by all directors.

## 2. Strive for effective and appropriate board membership

Organisations should strive for a board with effective composition, size and commitment to discharge its responsibilities and duties adequately. It is sometimes not easy to ensure that persons with the desired range of expertise volunteer but, to the extent possible, the foregoing statement should be implemented.

Each member of the board should:

- have a proper understanding of and competence to deal with the current and emerging issues of the organisation;
- exercise independent judgment;
- encourage enhanced performance of the organisation; and
- effectively review and challenge the performance of senior management.

In addition, a board may make use of board sub-committees to include co-opted members who bring a desired competence, knowledge or experience.

In a NFP communal organisation, directors should also bear in mind their responsibilities to their clients/members/users and other stakeholders, and to the broader community they serve.

## Recommendations to achieve good practice

### 2.1. The President is responsible for leadership of the board and for making it work fairly and effectively.

The President should take a leadership role in implementing the organisation's governance principles.

The President manages meetings and should ensure that board discussion is fair and open and includes all directors. It is also the President's responsibility, possibly in conjunction with the secretary, to ensure relevant issues are included in the agenda and that all directors receive timely and complete information for meetings.

The President is also responsible for setting the content and tone of the organisation's external communications, which should include communication of its governance charter to the stakeholders. For example, the President of an organisation that is a JCA constituent is a Governor of the JCA and should communicate relevant key issues concerning the organisation to the JCA Board of Governors. Equally, Presidents should communicate any relevant issues raised by JCA back to their boards.

### 2.2. Boards should ensure there is a formal, transparent process in place for the nomination, and selection of new appointments to the board.

The process for electing directors and office bearers is contained in an organisation's constitution. Reference to "appointment" of directors is a sensitive issue for many NFPs and typically not allowed for in their constitutions. Some NFP constitutions allow a capacity for the board to appoint one or two directors in addition to the elected directors.

Good governance requires a transparent, democratic and efficient process of electing directors. Within the context of, and for the reasons in, the above preamble as to seeking sufficient competent volunteers, nominations should be actively sought from those best able and willing to fulfil the organisation's mission and objectives as part of their service to the community.

Organisations that permit the use of proxies at general meetings should have a transparent process to ensure that:

- both the person granting the proxy and the person holding the proxy are paid-up financial members and/or meet any other membership qualification in the organisation's constitution; and
- an announcement is made at the general meeting as to how many proxies are held and by whom.

Those involved in nominating and electing board members should include consideration of the necessary and desirable competencies of new directors, the mix of competencies already on the board, development and ongoing review of board succession plans and the development of a process for evaluation of the performance of the board.

The appointment or re-election of directors should be transparent. The process should involve, and not just inform, the voting constituency. Directors undertaking leadership roles should have the experience, ability, objectivity and time available readily to perform their duties. Directors might be required to have served a minimum period on the board before taking executive responsibilities. The feedback process referred to in 1.2 above should contribute to ensuring that Directors have the necessary capabilities.

The board should be of a size and composition that is conducive to making appropriate and timely decisions and it should have sufficient directors who are not honorary officers to hold the honorary officers (such as President, Vice President, Treasurer, Secretary) accountable.

### 2.3. Directors should be appointed for specific terms subject to re-election.

## Directors

Board and Executive renewal is important to an organisation's sustainability, position and role in the community. The reality for many of our community's organisations is that the Executive collectively drives their board's agenda and the President has significant latitude to shape the Executive and organisation policy by dint of the time and effort the President is prepared to commit to the role as well as the accountability that is taken on. The result can be that philosophies, attitudes, rivalries, policies and strategies may become entrenched if there is not regular renewal of both the Executive and the President. While different organisations have different term requirements, it is suggested that all directors should be elected for a maximum term in the particular position.

If organisations do not already have such requirements, it is suggested that consideration be given to a maximum of six years in any one office.

### Executive Committee or Office Bearers

An office bearer includes any honorary position held by a director, such as President, Vice- President, Treasurer or Secretary. For most of our community's NFPs these office bearers sit on their board's Executive Committee. It is recognised that often those who become President of an organisation or are elected as an office bearer, will have served time as a director. Optimum succession planning may involve movement from director to an office bearer position and ultimately to President/Chair.

Term limits are suggested for the purpose of encouraging non-office bearing directors to move on to higher office or to make way for new blood on the board. Similarly they are intended to facilitate succession and fresh thinking at the office bearer or Executive level.

It is suggested that as a general rule no person should serve continuously on the board in any combination of elected capacities for more than 15 years and that no person, having served as President/Chair, should fill any other elected position on the board during his/her successor's term as President/Chair except as Immediate Past President. This includes persons who are nominated by another associated or affiliated organisation to the board of directors.

Boards may, subject to their constitution, recommend to their members an extension to the period served by one additional term if exceptional circumstances warrant it, and members may approve such an exception to the general rule.

### Role of Past Presidents and Life Governors et al

Past presidents often supply significant historical knowledge and wisdom that can inform good governance and decision-making. Past presidents should however exercise restraint in taking too active a role on boards even where a constitution permits them to do so, in order to ensure that new ideas can be tested and implemented by those elected to the board and Executive.

Past presidents may be appointed to life membership, life patron or life governor roles. It has sometimes been suggested that past presidents should only remain as board members or on the Executive of an organisation in the capacity of "immediate past president" to provide context and advice through the transition.

The role of "immediate past president" is a matter for each organisation to consider - there can be no hard and fast rule.

Life members, life patrons and life governors may offer long term corporate memory, perspective and valuable expertise and advice, to existing boards and often actively participate in committees and directly in the work of the organisation. Sometimes they are custodians of an organisation's assets. Each organisation needs to take into account the impact of these long serving and highly valued individuals on the Executive and the board, so that the latter have the proper scope to shape and drive the organisation with appropriate input by the former.

### 3. Determine values and culture

Good governance principles in Jewish communal organisations will articulate how the organisation will serve its community, and how it will act with fairness, as well as effectively and efficiently. While each organisation will have its own mission, it is also highly desirable that, as parts of a communal whole, organisations reach out to assist each other when they can.

Organisations should ensure that the desired underlying behaviours, philosophy and values are identified and promoted, including actively promoting ethical and responsible decision-making, taking into account legal obligations and the reasonable expectations of stakeholders, including donors, clients/members/users, employees and the broader community in which they operate. These broader considerations inevitably include social responsibility issues, contributions to the reputation and standing of the Jewish community and the roles of other organisations in the community.

### Recommendations to achieve good practice

**3.1. Organisations should determine the organisation culture by establishing and implementing a code of conduct and/or a set of organisation values that clarify standards of ethical behaviour, including confidentiality, required by the board, senior executives and all employees.**

Good corporate governance ultimately requires people of integrity. Personal integrity cannot be created by regulation but confidence in an organisation can be enhanced if it clearly articulates acceptable practices for directors and employees. The board has a responsibility to set the ethical tone and standards of the organisation, and senior executives have a responsibility to implement practices consistent with those standards.

### **3.2 Organisations should implement a process for monitoring and assessing the implementation of the agreed values and/or the code of conduct.**

This process may include the induction of new directors and employment/induction of new staff as well as being incorporated in any agreed board performance assessment policy or staff performance assessment.

## **4. Safeguard integrity in financial and social reporting**

Organisations should have a structure to verify and safeguard the integrity of their financial reporting and their social reporting (as identified by the members or the board - see further 4.2 below). This structure should include a detailed review and consideration of the financial statements by either an audit or finance committee (or an independent board treasurer and where appropriate a service auditor) as well as a process to ensure the independence and competence of the organisation's external auditors.

### **Recommendations to achieve good practice**

**4.1 Boards should establish an audit or finance committee (reporting to the board) that reviews the integrity of the organisation's financial reporting and oversees the independence of external auditors, or alternatively have other board processes in place which consider these issues.**

It is expected that organisations with large balance sheets or significant funds will have an audit or financial committee as well as an independent external auditor.

All members of the audit/finance committee should be financially literate (able to read and understand financial statements) and ideally one member should have relevant qualifications and experience (e.g. be a qualified accountant or other finance professional with experience of financial and accounting matters). If the board itself takes on this function, then at least one non-executive director should have financial expertise.

The audit committee, if there is one, should have a formal charter that clearly sets out its role and responsibilities, composition, structure and membership requirements and relevant procedures.

The audit committee should have rights of access to senior management, rights to seek explanations and additional information and access to auditors, internal and external, without management being present.

This should occur every year. If there is no such committee or an independent director, generally the Honorary Treasurer, should assume such a role and have such access rights.

To ensure accurate representation of an organisation's financial condition, the CEO and Finance Manager or equivalent (if there is one) should, in addition to the Treasurer, confirm in writing that the financial reports provide a true and factual representation of the organisation's financial position in accordance with relevant accounting standards. Such confirmation should be made available to the organisation's funders on request.

**4.2. Boards should consider establishing a service audit committee, if this role is not incorporated into the standing audit committee, which will review the organisation's service accountability including transparency and where appropriate, delivery of promised services and standards.**

As noted above, NFPs provide service to their community, and good governance should enhance and strengthen the NFP's capacity to deliver such service. A service audit is designed to ensure that systems are in place to focus on the organisation's service delivery or other social objectives as being of such importance that their assessment and measurement require as high a level of rigour and integrity as accounting and reporting processes.

## **5. Approve and review policy**

Organisations use policy as the main means of establishing their governance rules that are otherwise not included in their constitution or not adequately detailed in their constitution. Some policy can be determined by the members, and some by the board, depending on the organisation's structure.

### **Recommendations to achieve good practice**

**5.1. Board policies or other organisation policies should be recorded in a register and be subject to a review cycle.**

**5.2. The board policies or other organisation policies should be collated into a board or other policy manual which may be in addition to a board charter or incorporated into a board charter.**

## **6. Develop strategy and manage risk**

Organisations should establish a process for developing and revising their strategic plan and associated systems of risk oversight and management and internal control.

The strategic plan should, as a minimum, clearly articulate the organisation's mission, purpose and key delivery strategies and contain measurable and verifiable indicators. Risk management should be designed to identify, assess, monitor and manage risk and compliance as well as to identify material changes to the organisation's risk profile.

## Recommendations to achieve good practice

### **6.1. Organisations should ensure that their knowledge of their target group, the services they can and do provide, and organisational capacity enable confident forward planning.**

Strategic planning provides focus and assists the organisation to retain relevance. Most NFPs operate with a fairly stable medium to long term mission and key objectives but need at least annually to test its relevance, ascertain new needs, and evaluate their allocation/distribution of services and set short to medium term priorities, related performance measures and budgets. It is this latter set of outcomes (priorities, performance measures and budgets) that becomes the strategic plan.

### **6.2. Organisations should establish policies for the oversight and management of material operating risks.**

These policies should cover risk assessment risk management, compliance issues and assessment of risk management procedures. Areas of risk may include but are not limited to: operational, investment, environmental, sustainability, compliance, strategic, ethical conduct, reputation or brand, technological, product or service quality, human capital, OH&S, business or operational continuity, disaster recovery, government support, financial reporting and market-related risks (using market to refer to any field in which the organisation may have to consider demand, supply or competition).

### **6.3. Management should design and implement the risk management and internal control system to manage the organisation's material operating risks.**

Management should report to the board, or an appropriate sub-committee of the board, on these risks and whether they are being managed effectively.

The board, or an appropriate sub-committee, should review the efficacy of the organisation's systems for management of material risks at least annually and be prepared to report to stakeholders on risk management goals and progress towards achieving them.

## **7. Manage and remunerate performance**

Organisations should ensure that they have in place a performance management system relevant to their organisation's services, scale and complexity. Performance management includes both effectiveness and efficiency and is undertaken through a wide variety of means including goal setting, director/management/staff selection, work environment, systems, talent management, human resource management policies, performance assessment and feedback, outsourcing/supplier management, recognition and reward, including ensuring that the level and composition of remuneration is sufficient and reasonable and that its relationship to performance is clear.

## Recommendations to achieve good practice

### **7.1. Organisations that employ people should develop human resource management policies, including recognition, reward and remuneration policies that attract and retain talented individuals in board, staff and volunteer capacities who are motivated to enhance organisational performance.**

Volunteer and paid employees may be motivated by different drivers. Employees choosing to work for a NFP organisation typically have a desire to support the purpose of the organisation and to contribute more actively to the community or build social capital.

Performance-based recognition and incentives, linked to clearly specified performance targets, are an effective tool in promoting the interests of the organisation. It is recognised that the limited budgets of most of our community organisations allow little discretion to provide meaningful at risk financial incentives/bonuses to their managers. However formal recognition programs - eg. dinners, annual awards, internal magazine articles - are powerful motivators for the kind of people who are typically motivated to work for a NFP organisation and who materially contribute to improved organisational and individual performance.

The board, or executive officers as a group, should have input into the remuneration packages for any CEO and other senior employees whose performance materially impacts the organisation's strategy, operations and overall financial and service delivery performance. They should also give explicit attention to forms of recognition that are not financial.

**7.2. Organisations should try to ensure to the extent possible that they have succession plans in place for key individuals.**

This includes directors, management, senior staff and senior volunteers. Succession planning may be by way of identified people who are being trained to be elevated to a role or by way of a set of arrangements that ensure a minimum period (e.g. 3 months) of 'business continuity' whilst suitable replacement arrangements are undertaken.

**8. Recognise the legitimate interests of stakeholders.**

Organisations should recognise the legitimate interests of stakeholders — including employees, clients/members/users, donors, governments and the community as a whole - and facilitate the effective communication of information pertaining to these interests.

**Recommendations to achieve good practice**

**8.1. Organisations should establish procedures to guide compliance with stakeholder obligations.**

This includes legal obligations, such as those to government funding agencies, and other obligations to those who contribute funds.

**8.2. Organisations should design a communications policy for promoting effective communication with key stakeholders, including donors, members and other beneficiaries of programmes and services.**

Procedures should be put in place to ensure timely provision of information required by and which is informative for stakeholders. The material provided should be factual, and presented in a clear and balanced way.

**8.3. Organisations should ensure appropriate mechanisms are in place to receive, evaluate and respond to stakeholder feedback.**

Policy and procedures should be in place that record and monitor both positive feedback and complaints or critical feedback. In addition a process for dispute resolution needs to be in place and clients/members/users to be informed of its existence and to have the capacity to access it confidently.

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