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Best Practices for Aboriginal Communities and Organizations

A Focus on Governance

Derek Sagima

Introduction

Late in 2004 the National Aboriginal Capital Corporation Association ("NACCA") began a project to identify best practices within, or which could be adapted by, its Association of Aboriginal Financial Institutions ("AFI's").

AFI's are community-based non-profit lending organizations which provide capital and capacity building services to Aboriginal entrepreneurial individuals and organizations within their communities.

The Best Practices Project

The term "best practices" means different things to different people. For the purposes of the NACCA project best practices were defined as *the documented methodologies, strategies, procedures, and processes that consistently produce successful results.*

The project focused on best practices in governance, community impact and client success, and human resources as well as lending practices and loan portfolio management. The best practices that have been identified have broad applicability and relevance to almost any Aboriginal community and other community-based non-profit organization.

Certain best practices were identified that had a greater impact on enhancing AFI value than other best practices; we called these Best Practice "Pillars". To qualify as a Pillar a best practice either had to impact on more than one operational area, or had to lay the foundation for the development and implementation of other Best Practices. First among the Best Practice Pillars was the prioritization of governance, which is the focus of this article.

When discussing governance practices, we use the term "governing bodies" to include Boards of Directors, elected bodies such as Councils and other bodies that serve a governance role.

Prioritizing Governance Practices

We observed that the success of an AFI in achieving its mission, and in managing its loan portfolio, was mostly attributable to the strength of its governance practices. In general, we found that strong governance leads to strong operational practices, and that weak governance practices can neutralize or even undermine otherwise strong operational practices.

While not necessarily new, the following governance best practices are often underestimated in terms of their importance and impact on overall organizational performance.

1) Members of governing bodies, management, and staff adhere to high standards of ethical behaviour

Ethical behaviour builds the credibility and reputation of an organization. Critical to establishing high standards of ethical behaviour is setting the right "Tone from the Top" because staff and stakeholders look to the governing body and management to observe their behaviour, and then emulate that behaviour themselves.

The "Tone from the Top" should be supported with policy addressing:

1. conflict of interest,
2. director compensation and expense reimbursement,
3. confidentiality, and
4. code of conduct.

2) Differentiate between the roles of management and governing bodies

Differentiating between the roles of management and governing bodies enables communities and organizations to hold the two groups accountable for their areas of responsibility; prevent inefficiencies,

GOVERNANCE BEST PRACTICES

1) Members of governing bodies, management, and staff adhere to high standards of ethical behaviour
2) Differentiate between the roles of management and governing bodies
3) Structure the governing body to add value
4) Self-Evaluation and continuous improvement
5) The Governing body recruits, evaluates, and remunerates the Executive Director / CEO
6) Organizational risk is effectively managed
7) The governing body ensures integrity in financial reporting
8) The community/organization interacts with, engages, and recognizes the legitimate interests of members and stakeholders
9) Linkage and alignment of an organization's mission, vision, goals and values and performance through strategic and operational plans, policies and procedures

confusion, frustration, distrust and conflicts amongst the governing body and management; and focus on strategic goals and operations.

The governing body's role is typically one of oversight and providing strategic guidance; management is usually responsible for implementing plans, achieving intended results, and managing operations.

Differentiating between the roles of management and governing bodies can be achieved by:

a) Formalizing and regularly reviewing the roles and responsibilities of each. Consider using a "roles and responsibilities" chart to document this segregation.
For example:

Role or Responsibility	Management	Governing Body
Approving the mission, vision, values and objectives		X
Approving a strategic planning process		X
Implementing strategic planning process	X	
Identifying risks and strategies	X	
Assessing and approving risks & strategies		X
Data collection and analysis	X	
Draft the strategic plan	X	
Assess and approve the strategic plan		X
Preparing budgets and operating plans	X	
Approving budgets and operating plans		X
Etc.		

**Adapted from Bart, 2003.*

b) Document the authority delegated to management.
The delegated authority documentation could include:

1. Borrowing and lending limit authority;
2. Hiring and termination authority, including contract, part-time, and consulting services;
3. Salary and benefit authority, including starting salaries, annual adjustments, and discretionary adjustments;
4. Purchasing limit authority, including capital assets, professional and consulting services, etc;
5. Disbursement limit authorities (i.e. cheque signature levels);

3) Structure the governing body to add value by:

a) Ensuring independence from external influences by developing and implementing an independence policy;

Independence means being able to make decisions in the best interests of the organization, without any external influence or competing interests. An independence policy, along with a conflict of interest policy facilitates the separation of business and politics.

Independence requires that members of governing bodies not only observe the conflict of interest policy, but that they also are sufficiently removed from the influence of personal and competing interests so as to be able to fulfill their duty of loyalty without obstruction.

b) Establish criteria to recruit governing body members with the capacity and commitment to add value. Criteria can include, but may not be limited to:

- Minimum education and / or experience requirements;
- No criminal record;
- Clean credit report;
- Satisfaction of independence criteria; and
- Necessary skills, knowledge and experience to contribute to the governing body.

Minimum governing body criteria should apply whether governing body members are appointed, elected, or recruited.

c) Set clear term lengths and reselection procedures, and stagger terms.

Managed turnover is healthy for an organization as it facilitates the building of community capacity and stakeholder relationships (by developing community leaders who can contribute in other ways once their term ends), provides for ongoing input of fresh ideas and perspectives, challenges the status quo, and builds organizational capacity. Consider introduction of a maximum term of service to ensure managed turnover.

Renewal should not be automatic. Upon expiry of a term, members should be subjected to the same selection procedures as outside candidates.

Staggering terms will prevent wholesale change on the governing body, and promote efficiency and effectiveness by establishing stability, continuity, and corporate memory.

d) Remove members who breach their duties and responsibilities;

Removing members who breach their duties encourages performance and provides a mechanism for maintaining the quality of the governing body. Conditions for removal should be based on expectations laid out prior to acceptance.

e) Secure liability insurance; and

f) Develop position descriptions and terms of reference.

4) Self-Evaluation and continuous improvement.

Self-evaluation identifies opportunities to improve performance, to evolve and to reach full potential.

Evaluations typically take place on an annual basis and asks if the governing body is:

a) Doing what it is supposed to be doing;

b) Doing what it is supposed to be doing well;

c) Receiving sufficient information (i.e. timely, accurate and complete) it needs to do its job well; and,

d) Meeting the changing needs of the organization.

5) The Governing body recruits, evaluates, and remunerates the Executive Director / CEO.

As part of their job description governing body members should evaluate the Executive Director's / CEO's performance, and review their compensation. Executive Director / CEO succession planning is also an important responsibility of the governing body. Succession plans could include:

- Plans for identifying and developing internal management talent, including leadership or management development opportunities;
- Work-around plans or interim measures for the transfer of the Executive Director's / CEO's authority;
- Establishing that staff are committed, competent and operate within well-documented operational systems, in order to minimize the amount of supervision required.
- An up-to-date policy and procedure manual that guides the behaviour of all employees, and can facilitate the continuity of operations in the event of sudden management changes;
- Professional development, cross-training and increasing the responsibilities of other staff so that they can perform the roles of the Executive Director / CEO;
- Guidelines for the maintenance of records and information; and
- Guidelines for an orientation / induction process for new Executive Directors / CEOs.

6) Organizational risk is effectively managed.

Taking a proactive, forward-looking approach to risk can enable communities and organizations to identify and manage risks. Organizations that manage risks well are more likely to achieve or exceed objectives.

Organizational risk can be managed by:

a) Identifying, analyzing, and mitigating all major business risks on an ongoing basis.

A risk management plan should address the community's/ organization's major business risks and detail the strategy to deal with them. A risk management plan might document:

- *Determination of risk appetite:* An organization should determine the level of risk it is willing to take in its business operations.
- *Risk identification and analysis:* Systematic identification of major business risks it faces and assessment of the probability and consequences of each individual risk;
- *Mitigation:* strategy to avoid, share, transfer, manage or accept based on the organization's risk tolerance.

b) Reporting on risk to the governing body.

Reporting on risk is an integral part of reporting to the governing body, and should be a component of the reporting package. The value-add component of a risk report is the update for new risks / opportunities as it tables new issues and opportunities early, and it demonstrates that risk management is being performed on an ongoing basis.

In addition to reporting on risks identified in the risk management plan, the risk aspect of all decisions should be disclosed. When approval or a decision is solicited, the recommendation should be presented in full light of its:

- Potential risks;
- Rejected alternatives;
- Worst-case scenarios;
- Any management apprehensions or uncertainties.

7) The governing body ensures integrity in financial reporting.

While many governing bodies have an audit or finance committee that oversees financial reporting, it is the responsibility of the full governing body to ensure integrity in financial reporting. This can be achieved by:

a) Ensuring that the financial management of the organization is handled with integrity and competence.

b) Receiving financial and performance reports in a timely, comprehensive and consistent manner

c) Looking for the following attributes in performance reports received from management:

- Reports should be clear, easily readable and user-friendly;
- Comprehensive: by including even more information than is required, management demonstrates accountability and transparency;
- Analytical and anticipant: analysis conducted and questions answered before reviewed
- Exception based: exceptions and unusual items are identified
- Reports are consistent from period to period;
- Reports are supported / referenced when possible;
- There is continuity between reports to the extent possible.

d) Ensuring that an appropriate control framework is in place

Governing bodies can receive assurance that the control framework is in place and effective in a variety of ways, including, but not necessarily limited to:

- Documented control framework description;
- Receipt of timely, accurate and relevant financial statements and reporting;
- Demonstration of transparency and accountability by management.
- Annual review of policies and procedures to ensure continued completeness, effectiveness and relevance;
- Independent reviews of compliance with policies and procedures;
- Special auditor reporting on the existence and effectiveness of selected controls; and
- Confidence in financial management staff.

8) The community/organization interacts with, engages, and recognizes the legitimate interests of members and stakeholders.

A stakeholder has been defined as a group or individual who can affect or who is affected by the activities or outcomes of the organization/community.

Organizations and communities can create value and mitigate risk better by acknowledging their obligations to and actively managing stakeholder relationships. Member and stakeholder interests can be recognized by:

- Inviting key stakeholders to participate in the strategic planning process.
- Prioritize, plan and implement a structured communication strategy with stakeholders.

9) Linkage and alignment of an organization's mission, vision, goals and values and performance through strategic and operational plans, policies and procedures;

A strategic plan lays out how an organization intends to achieve its mission and vision over a period of time.
Strategic plans generally drive operational plans. In other words, developing annual operational plans without linkage to an overall strategy which is in turn linked to the organization's mission / vision / values will likely result in a sub-optimal use of time and resources, not to mention effort.

Finally, aligning staff, policies and procedures, technology, controls systems and communications with the organization's strategic, operational and financial goals and objectives will promote focus, efficiency and achievement. Alignment may entail:

- Communicating strategic goals to management and staff on a regular basis;
- Redefining job descriptions and the organizational structure to reflect goals and objectives;
- Adjusting compensation policies to motivate desired behaviours and performance to achieve strategic, operational and financial goals;
- Hiring individuals on the basis of their ability to perform the critical tasks and priorities required to achieve goals;
- Providing staff with specialized training necessary to achieve goals;
- Ensuring organizational policies and procedures and information systems are controlling, measuring and reporting on goals; and
- Acquiring new hardware / software to enable staff to achieve their goals and objectives.

Some Practical Suggestions

There are some easy things that can be done to facilitate community and organizational governance, including:

a) Require members of governing bodies to periodically certify in a formal fashion their adherence to key governance criteria like independence, loyalty / commitment, and that they have read and understood key organizational policies such as conflict of interest, code of conduct, confidentiality, roles and responsibilities of management and directors.

Doing this will:

- set the "Tone from the top" and demonstrate leadership;
- ensure that directors are continually reminded of their roles and responsibilities, and of stakeholder expectations; and
- hold governing body members accountable for their performance and behaviour.

b) Establish reporting to the governing body as an ongoing management / staff priority. Establishing reporting as a management priority will help to ensure that the governing body is receiving the information which it requires to monitor the organization and make decisions;

c) Develop and implement a standard governing body reporting package. A reporting package could include a risk report, strategic plan status update (i.e. where are we in terms of achieving goals and objectives), financial and accompanying analysis / recommendations, non-financial performance (i.e. key performance metrics such as client activity / success measures), etc;

d) Provide the governing body with access to external expertise such as auditors / accountants, insurance experts, legal counsel, etc. Providing external expertise should be considered when there is a relevant issue on the table, or when there is a change in the laws, regulations, or industry which necessitates that the governing body be brought up to date;

e) Plan and calendarize the work of the governing body. This establishes an annual schedule which helps ensure that important governing body functions are not forgotten and facilitates preparation on both sides.

About the Author:

NACCA is a national non-profit association of fifty-five member AFI's, and is dedicated to assisting AFI's to enable their communities to realize greater economic self-reliance through advocacy, providing fair access to capital, resources, and information. Derek Sagima is a Chartered Accountant, Certified Fraud Examiner, and works with the National Aboriginal Capital Corporation Association as the Chief Operating Officer.

A Model for Aboriginal Facilitation: an Open, Empowering Way to Get Consensus and Action

Introducing *Open Space Technology*

John Swanson

If online surveys are to be believed, many people fear speaking in public more than they fear death. When public speaking is combined with having to balance the interests of a diverse group of a people in a facilitated setting, even experienced professionals can feel daunted.

Having good facilitation skills is a vital asset in today's world. Yet unlike straight public speaking, a facilitator's communication skills will often be less important than their facilitation technique. It therefore makes good business sense to have a working knowledge of facilitation models and methods.

For organizations which work with First Nations communities, having facilitation capability is also vitally important. The National Centre for First Nations Governance is one such organization. The NCFNG, an organization dedicated to assisting First Nations implement their inherent right to self-governance, has been trialing a facilitation technique known as Open Space Technology. Designed by Harrison Owen, Open Space is an emergence-based facilitation methodology which has proved itself to be effective in the broader business world, but one which is particularly relevant in Aboriginal contexts.

The National Centre for First Nations Governance supports First Nations inherent right to self-government and seeks to engage First Nations communities in dialogue that supports action, particularly in the development of effective and culturally relevant governance structures.

Having worked in numerous small communities in West Africa and other parts of the world, Owen distilled many of the underlying principles of how these communities made decisions into the Open Space approach. But in acknowledgement of its tribal roots and collaborative and evolutionary development, Owen has not claimed proprietary rights to the process. Rather, he encourages organizations across the world to freely adapt Open Space Technology to their needs.

The 'open space' in Open Space Technology derives from the fact that a circle structure of gathering tends to create greater openness in communications amongst participants. Thus, an area of space is required that will allow all participants (regardless of the number), to sit in a circle. This is how an Open Space gathering begins. As ideas emerge and topics of discussion are tabled, further spaces are utilized to host these discussions. But these too are circle-structures, with no Chair, and the only recognized position within the group is that of note-taker.

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