



## **Nonprofit Basics**

### **Organizational Policies and Procedures**

Clarify your organizational values with clear, written policies and procedures

Friday, 22 January 2010

9:30 am – 12 noon

***FuturoNow: Built of Lasting Impact***

Presented by:

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## Agreements & Objectives

What makes for clear and efficient expression of an organization's values? This workshop will demonstrate how a system of explicit policies and procedures can and should do that. Policies define why your organization exists and the difference it will make outside of its own walls. Policies and procedures provide guidance on how organizations treat people and handle money and other resources. Monitoring organizational behavior as an essential practice will be explored. Founders, board members, directors, new and established organizations will find this workshop helpful.

K: What you already <u>K</u> now	W: What you <u>W</u> anna learn	L: What you <u>L</u> earnt in the end

## Introduction to Policies and Procedures

**Policies** are principles, rules, and guidelines formulated or adopted by an organization to reach its long-term goals. They are designed to influence and determine all major decisions and actions, and all activities take place within the boundaries set by them.

**Procedures** are the specific methods employed to express policies in action in day-to-day operations of the organization. Together, policies and procedures ensure that a point of view held by the governing body of an organization is translated into steps that result in an outcome compatible with that view.

## Seasoned thoughts about Policies and Procedures

- You don't have a policy or procedure unless it is written down
- Policies and procedures are tools that are meant to be changed, improved and useful over time
- If someone is not monitoring performance against policies, you don't really have a policy
- When monitoring discovers noncompliance with policy, figure out what needs to change: the organizational behavior, or the policy
- Policy goes only as far as it does—more like general guidelines actually
- Stay ahead on the policy writing, be proactive, rather than reactive—write HR policy before hiring first employee, write values about fundraising before engaging in a fund-raising campaign,
- Policy written in reaction to an unacceptable situation or circumstance is not going to be good policy

## Areas for Policy and Procedure Development

- Board level policy: organizational ends, limitation of organizational behavior, the board linkage to organizational operations, and the boards own governance process
- Board's role in fund raising
- Intellectual property ownership and value for exchange
- Human resources—paid and volunteer staff
- Fund raising
- Treatment of clients
- Policies on privacy, harassment, whistle-blowing, conflict of interest of related parties, compliance with external legal pressure
- Disclosure of financial activity and position (required for nonprofits)
- Fiscal management—use of funds, temporarily or permanently designated funds
- Bookkeeping and accounting procedures handbook, including segregation of duties, handling of cash and other negotiable instruments, Generally Accepted Accounting Principles
- Third party monitoring of financial statements, audit and audit committee
- Regarding overhead and administrative costs
- Legislative Impact, lobbying, advocacy

## **Board Level Policies**

The essential work of a board of directors of any organization is to add value with job outputs that are specific to the role of the board and for which the board holds itself accountable.

- Articulating clearly what the organization is to accomplish for its membership or other moral-ownership—more than what is keeping the organization busy but what will make a difference in the world because the organization does what it says it should.
- Develop accountability as an organizational characteristic and providing assurance that the expected results were produced and unacceptable situations and circumstances were avoided, and the cost was worth the result.
- As the board understands its trustee function, it develops a strategy of linkage to and understanding of the membership to act on its behalf.

These job outputs are the unique contribution of a board of directors that no other person or group can accomplish. It is further the board's responsibility, once these job outputs are understood, to hold itself accountable for their work. It is through this that the board can accomplish its duty of care, duty of loyalty and duty of obedience.

## **Governance Definition**

Board governance is the job of the group granted full accountability and full authority for value produced on behalf of those who morally if not legally own the organization. It is the servant-leadership work of the highest and initial authority within the organization.

Policy Governance® is a comprehensive set of integrated distinctions that, when consistently applied, allow governing boards to realize their accountability.

By making policy, the board Governs proactively through explicit statements of values rather than reactively or through event-specific decisions. Boards must be at least as disciplined as they expect their staffs to be.

**Preview/review of some features and benefits for Boards that choose to use Policy Governance:**

<p><b>Board Job Outputs</b></p> <ul style="list-style-type: none"><li>• Explicit board level policy</li><li>• Linkage to ownership</li><li>• Assurance of organizational performance</li></ul>
<p><b>Populating the Board</b></p> <ul style="list-style-type: none"><li>• Ability &amp; discipline to think</li><li>• Recruited for demonstrated commitment to the values and mission of the organization</li><li>• Connections to the “moral ownership” and resources</li><li>• Creative Thinker, Open Minded, Team Player</li><li>• Time and energy to meet</li><li>• Strong Ethics, Possess Integrity</li><li>• Recruitment of board members for management skills confuses the purpose of the board</li></ul>
<p><b>Governance Process</b></p> <ul style="list-style-type: none"><li>• Board acts on behalf of membership or moral ownership</li><li>• Cultivate a sense of group responsibility</li><li>• Direct, control, and inspire the organization</li><li>• Enforce upon itself whatever discipline is needed to govern with excellence</li><li>• Emphasize the future rather than past or present, and proactivity rather than reactivity</li></ul>
<p><b>Result: Organizational Accountability</b></p> <ul style="list-style-type: none"><li>• Board uses board level policy to set standards for organizational performance.</li><li>• Organizational accomplishment of board-stated ends and avoidance of board-proscribed means will be viewed as successful performance</li><li>• The board rigorously monitors performance and only against stated criteria</li><li>• Accountability is a characteristic of the organization, not finding someone to blame</li><li>• Duty of care, duty of obedience, duty of loyalty</li></ul>

## Board Policy Making

**Ends** – *Why does the organization exist? Defining the organization's exchange with the world: what needs are to be met, for whom, and at what cost or relative value*

- Vision
- Mission
- Priorities

**Executive Limitations** – *those principles of prudence and ethics that limit the authority of the staff. Transforming worries into policies!*

- Financial condition and activity
- Budgeting
- Asset protection
- Personnel, including compensation
- Growth
- Treatment of clients/consumers

**Board-Executive Relationship** – *the manner in which power is delegated to the CEO and assessment of the use of that power.*

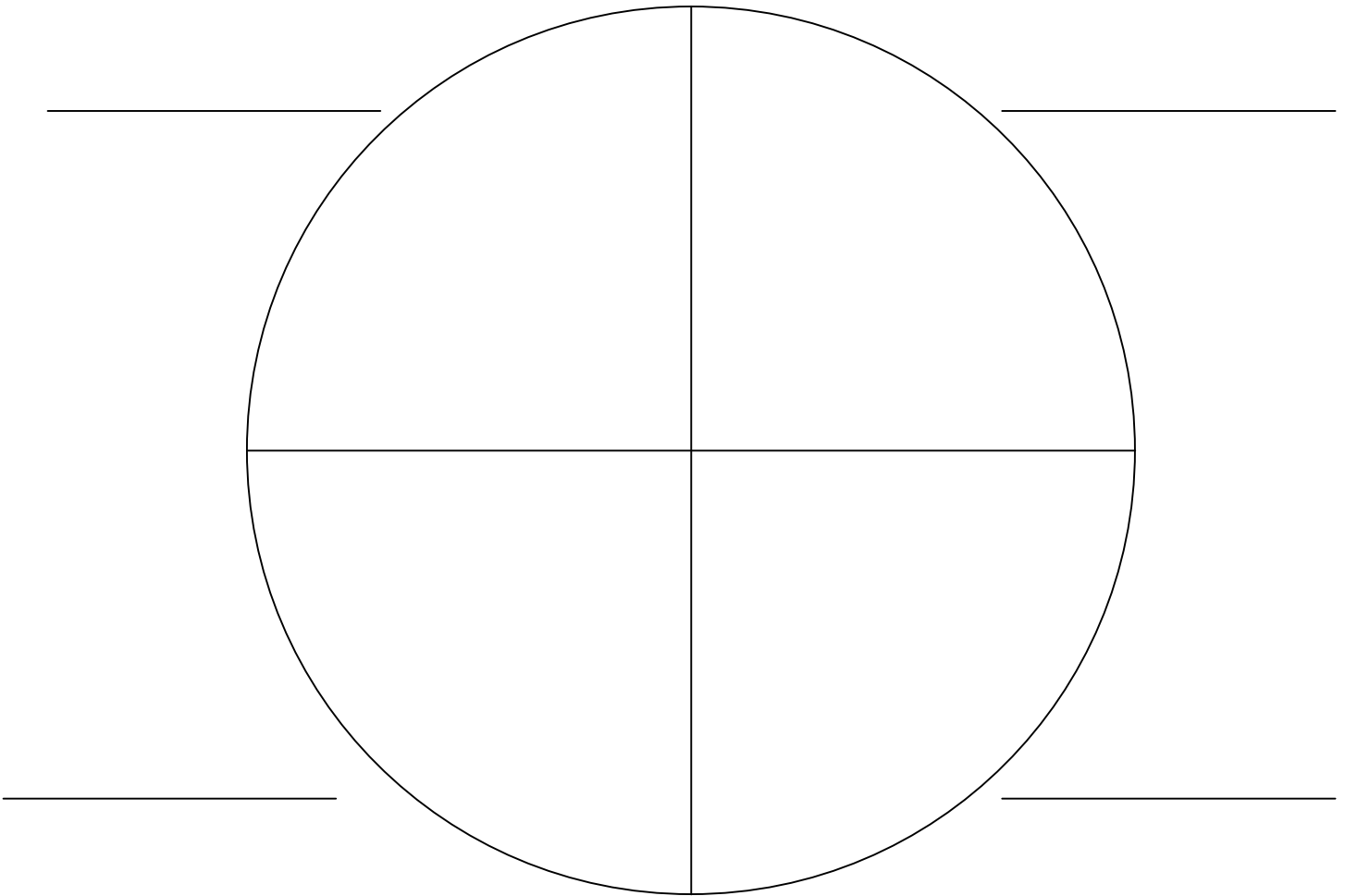
- Holding the organization accountable for accomplishing what it should
- Ensuring the organization avoids unacceptable situations and circumstances
- Routine schedule of monitoring—direct inspection, staff report, third party

**Board Process** – *the board's own description of how does its own work and provides strategic leadership to the organization*

- The board should be as disciplined in its own work as it expects the staff to be disciplined
- Monitor Organizational Performance
- Linkage to ownership
- Explicit governing policies
- Assurance of executive performance
- Fundraising
- Legislative/advocacy strategy

Adapted from *Reinventing Your Board, a step by step guide to implementing policy governance*, by John Carver and Miriam Mayhew Carver

**Explicit Board Values in Four Areas  
Policy Governance® Framework**



## **Fiduciary Responsibility**

### **Heavy Duty: “Board members must understand their fiduciary responsibilities”**

#### **Defined**

- Nonprofit board members have a fiduciary responsibility to the organization.
- A person who has the power and obligation to act on behalf of another person under circumstances that require total trust, good faith and honesty.

#### **Duty of Care**

➔ Board members must exercise reasonable care in overseeing the organization’s financial and operational activities

#### **Duty of Loyalty**

➔ Board members must act solely in the best interests of the organization and its constituents, and not for personal gain.

#### **Duty of obedience**

➔ Board members must act in accordance with the organization’s mission, charter and bylaws, and any applicable state or federal laws

## **Sample Board Level *Governance Process* Policy**

### **Policy Type: Governance Process**

- The board will govern lawfully, observing the principles of the Policy Governance model, with an emphasis on
    - (a) outward vision rather than an internal preoccupation,
    - (b) encouragement of diversity in viewpoints,
    - (c) strategic leadership more than administrative detail,
    - (d) clear distinction of board and chief executive roles,
    - (e) collective rather than individual decisions,
    - (f) future rather than past or present, and
    - (g) proactivity rather than reactivity.
1. The board will cultivate a sense of group responsibility. The board, not the staff, will be responsible for excellence in governing. The board will be the initiator of policy, not merely a reactor to staff initiatives. The board will not use the expertise of individual members to substitute for the judgment of the board, although the expertise of individual members may be used to enhance the understanding of the board as a body.
  2. The board will direct, control, and inspire the organization through the careful establishment of broad written policies reflecting the board's values and perspectives. The board's major policy focus will be on the intended long-term impacts outside the staff organization, not on the administrative or programmatic means of attaining those effects.
  3. The board will enforce upon itself whatever discipline is needed to govern with excellence. Discipline will apply to matters such as attendance, preparation for meetings, policymaking principles, respect of roles, and ensuring the continuance of governance capability. Although the board can change its Governance Process policies at any time, it will scrupulously observe those currently in force.
  4. Continual board development will include orientation of new board members in the board's Governance Process and periodic board discussion of process improvement.
  5. The board will allow no officer, individual, or committee of the board to hinder or serve as an excuse for not fulfilling group obligations.
  6. The board will monitor and discuss the board's process and performance at each meeting. Self-monitoring will include comparison of board activity and discipline to policies in the Governance Process and Board-Management Delegation categories.

**Policy Type: Executive Limitations**

**Policy Title: 2.3. Financial Condition and Activities**

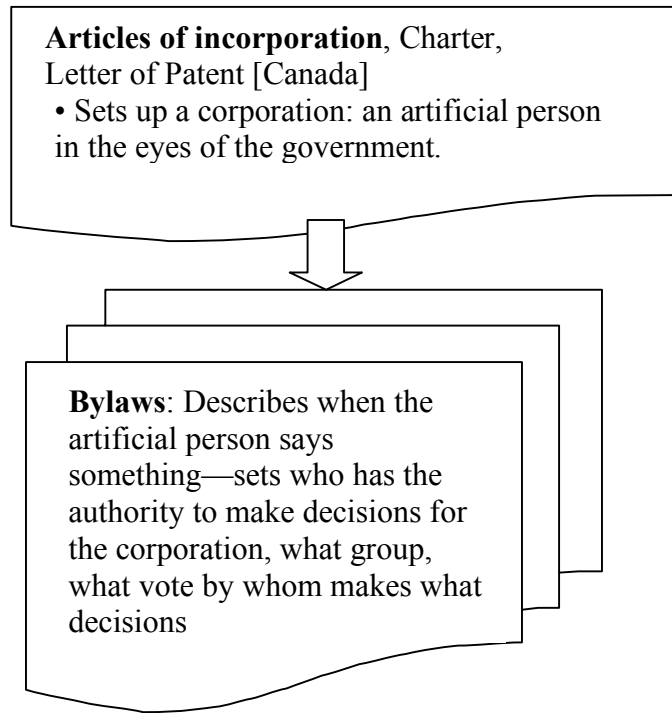
- With respect to the actual, ongoing financial condition and activities, the CEO shall not cause or allow the development of financial jeopardy or material deviation of actual expenditures from board priorities established in Ends policies.
- Further the CEO shall not...
  1. Expend more funds than have been received in the fiscal year to date unless the debt guideline is met
  2. Incur debt in an amount greater than can be repaid by certain otherwise unencumbered revenues within sixty days
  3. Use any long-term reserves
  4. Conduct interfund shifting in amounts greater than can be restored to a condition of discrete fund balances by certain otherwise unencumbered revenues within thirty days
  5. Fail to settle payroll and debts in a timely manner
  6. Allow tax payments or other government-ordered payments or filings to be overdue or inaccurately filed
  7. Make a single purchase or commitment of greater than \$ \_\_\_\_\_. Splitting orders to avoid this limit is not acceptable.
  8. Acquire, encumber, or dispose of real property
  9. Fail to aggressively pursue receivables after a reasonable grace period

**Policy Type: Executive Limitations**

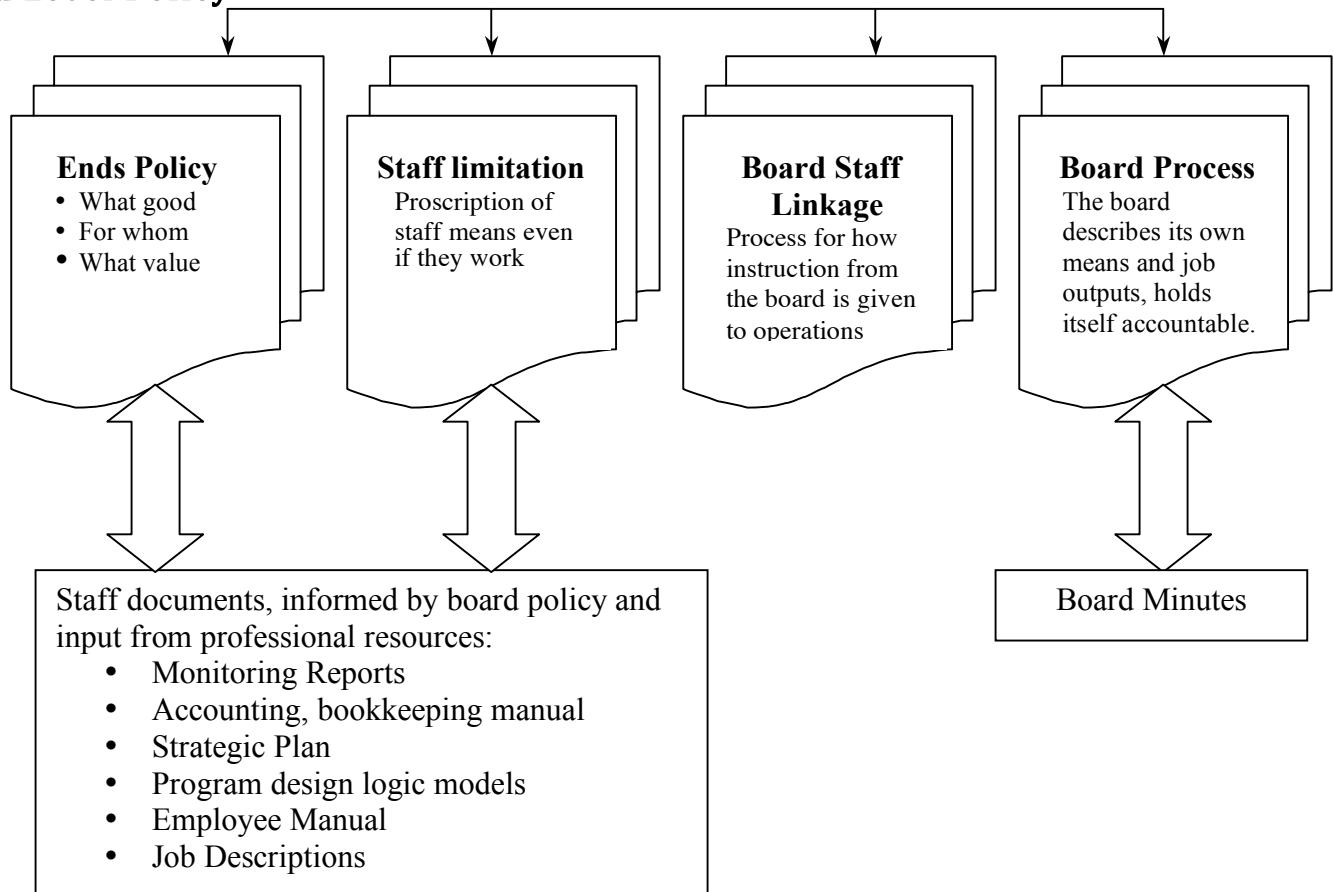
**Policy Title: 2.4. Financial Planning and Budgeting**

- The CEO shall not cause or allow financial planning for any fiscal year or the remaining part of any fiscal year to deviate materially from the board's Ends priorities, risk financial jeopardy, or fail to be derived from a multiyear plan.
- Further, there will be no financial plans that...
  1. Risk incurring those situations or conditions described as unacceptable in the board policy "Financial Condition and Activities"
  2. Omit credible projection of revenues and expenses, separation of capital and operational items, cash flow, and disclosure of planning assumptions
  3. Provide less for board prerogatives during the year than is set forth in the Governance Investment Policy as cost of governance

## Hierarchy of Documents



### Board Level Policy



## Board Member Characteristics

What characteristics should we look for in prospective board members once we have articulated the job outputs of the board of directors? Do not confuse management skills as substitutes for any of these characteristics.

- People who can think about principles and values
- People who can enjoy creating the future rather than merely evaluating the past
- People with moral courage, strong ethics, possess integrity
- People who are willing to let others be strong
- People who are intelligent and willing to learn, creative, and open-minded
- People who can be team players
- People with an ability to empathize with and connect to the ownership
- People who have demonstrated commitment to the values and mission of the organization
- People with connections (community, resources, moral ownership)
- People with time and energy to meet
  - What other characteristics would you add?
  - \_\_\_\_\_
  - \_\_\_\_\_
  - \_\_\_\_\_

The work of the board is thinking work more than doing. People who have the interest and discipline to work in the abstract might be good board members. The big job of a board of directors is to ensure the organization does what it should while avoiding unacceptable situations and circumstances. Job outputs include: (1) explicit board policy to articulate the values of the organization, (2) monitoring, and (3) linkage to the moral ownership.

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Capacity Partnership Group provides consulting services in all areas of nonprofit management specializing in ...

## Nonprofit Management

- Strategic Planning: resource development, marketing, outreach
- Project conceptualization, design, implementation, evaluation
- Ongoing project technical assistance
- Fund development, grant application
- Self-employment, microenterprise
- Education, community development

## Board Governance

- Create an environment where boards can lead leaders
- Define the role and job outputs for the board
- Training and orientation of board members
- Design and installation of Policy Governance® policy
- External evaluation of board function
- Alignment of operations with governance and accountability
- Board retreat, strategic planning through ends development

## New Organization Development

- Incorporation and organizational structure
- Board leadership and governance development
- Strategic planning
- Resource development planning
- Project and program design

## Organizational Capacity Building

- Assessment and capacity planning
- Restructuring and alignment
- Board leadership and development
- Resource development planning
- Project and program design
- Strategic planning
- Financial services, operations
- Technology assessment, connectivity

## About Glen Peterson

**Glen Peterson** has led and been a catalyst within grass-roots, community, and faith-based organizations in Miami, Chicago, Indianapolis, South Los Angeles, Pomona and other geographies. Glen has worked with immigrants, youth, parolees, recovery, and other specialized populations. He is passionate about transformation in people and communities across cultural, economic and social barriers. He has nearly 30 years of experience with community organizations as a volunteer, board member, consultant and staff leader. He has managed capacity building programs funded by the Compassion Capital Fund (Department of Health and Human Services) for World Vision and Mennonite Economic Development Associates (MEDA). He has contributed to the development, sustainability and growth of community economic development organizations. He is an associate consultant with Long Beach Nonprofit Partnership, Southern California Center for Nonprofit Management, Urban Youth Workers Institute, Christian Community Development Associates, California Resources and Training (CARAT) and NeighborWorks®.

Peterson consults with nonprofit organizations to adopt and install a complete board governance system that links an organization to its moral ownership, write explicit board level values and holds the organization accountable to accomplish what it should and to avoid unacceptable situations. Glen is a member of the International Policy Governance® Association and trained with John and Miriam Carver at the Policy Governance® Academy<sup>sm</sup>.

Peterson was the founder and executive director of a community-based organization with the expressed “ends” to improve the economic wellbeing of South Los Angeles families providing microenterprise training and traditional employment programs produced these ends. Fifteen years experience in this organization produced partnerships with large and small financial institutions providing linkages to emerging markets, financial literacy training for adult entrepreneurs, individual development savings accounts, banking industry job internships for youth, and improved banking services for inner-city residents.

Mr. Peterson earned a Master of Divinity from Denver Seminary and a Bachelor of Arts, Intercultural Studies from Biola University.

**Other workshop titles and topics:** Governance Matters (“Board Rooms, Bar Fight and Beautiful Music: Making more of one and less of the other”), Strategic Resource Development, Fiscal Management for Nonprofits, Organizational Assessment and capacity building, Community Collaboration and Partnerships, Visioning, Christians at the Border: a biblical look at immigrants and immigration [Cristianos en la frontera: una mirada bíblica en los inmigrantes y la inmigración].