SCHWAB FOUNDATION FOR
SOCIAL ENTREPRENEURSHIP

WORLD ECONOMIC FORUM

COMMITTED TO IMPROVING THE STATE OF THE WORLD

The Governance of Social Enterprises

Managing Your Organization for Success

June 2012

TUM School of Management
Ann-Kristin Achleitner
Judith Mayer

SCHWAB FOUNDATION FOR
SOCIAL ENTREPRENEURSHIP

Schwab Foundation for Social Entrepreneurship
Mirjam Schöning
Abigail Noble

EBS Universität für Wirtschaft und Recht

European Business School
Andreas Heinecke

Authors

Mirjam Schöning, Head of the Schwab Foundation for Social Entrepreneurship, joined the Foundation in August of 2000 at its inception and has been shaping the strategy and activities of the Foundation as a pioneer in the field of social entrepreneurship.

Abigail Noble, Head of Latin America and Africa for the Schwab Foundation for Social Entrepreneurship, joined the Foundation in 2010 and is a World Economic Forum Global Leadership Fellow.

Andreas Heinecke, Founder of Dialogue Social Enterprise, and was named Social Entrepreneur of the Year 2007 by the Schwab Foundation for Social Entrepreneurship. He holds a PhD in Philosophy and is a Professor for Social Business at the European Business School in Germany.

Ann-Kristin Achleitner holds the Chair in Entrepreneurial Finance and is Scientific Co-Director at the Center for Entrepreneurial and Financial Studies (CEFS) at Technische Universität München. Her research focus is in the areas of venture capital, private equity, family firms and social entrepreneurship.

Judith Mayer is research assistant at the chair in Entrepreneurial Finance at the Technische Universität München . Her research focuses on the relationship between social investors and social entrepreneurs and protection of double bottom line in mission focused businesses.

REF 070612

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Foreword

Hilde Schwab
Chair, Schwab Foundation for Social Entrepreneurship

Mirjam Schöning
Head, Schwab Foundation for Social Entrepreneurship

This document was conceived by social entrepreneurs for social entrepreneurs and those contemplating to start a social enterprise. Two years ago, a group of social entrepreneurs from the Schwab Foundation community came together to identify the issues on which they wished someone had provided guidance when they were embarking on their social enterprise journey.

In 2010, the first challenge they took was social investment. Many had struggled with questions such as if and how to raise capital from social investors, whether they should sign a non-disclosure agreement or not and simply which social investors to approach. The experience and questions of the Schwab Social Entrepreneurs were taken up in the first publication of the task force, called the Social Investment Manual.

Based on the success of the Social Investment Manual, Andreas Heinecke, Founder of Dialogue Social Enterprise, convened the task force during the World Economic Forum Meeting on Europe in Vienna in June 2011 to discuss the next logical step after social investment. The task force identified Corporate Governance of Social Enterprises and, in particular, Boards. Many investors demand a change in governance structures as a result of investing in an organization. This requires social entrepreneurs to think about creating a board if they do not already have one and managing it in an optimal way.

Boards bear the potential to greatly enhance the mission of a social enterprise, if careful thought goes into the right composition and management. Governing boards also have significant influence and can take social enterprises into different directions than intended by the founders. Many entrepreneurs of social businesses which generate attractive financial returns find over time that their boards might be tempted to choose higher profitability over deeper social impact. Overruled by investors' priorities, many founders have left their organizations. Among others, this document addresses the question of how social enterprise leaders can protect the social mission of their organization through the governance structure.

While this is a manual by social entrepreneurs, it would not have been written without the crucial support of Professor Ann-Kristin Achleitner and Judith Mayer from the Technical University Munich. We are greatly thankful to Professor Achleitner for providing her deep expertise gathered over years as Chair of the Institute of Entrepreneurial Finance on governance in small and medium enterprises. We would like to thank Judith Mayer for her close collaboration with the social entrepreneurs of the task force through regular calls, interviews and a survey to compile this manual.

We hope this manual will serve as a practical tool for social entrepreneurs and will find its way into university courses. However, it is only as useful as you find it. We hope, therefore, to hear your feedback to incorporate into subsequent versions.

Note: This is a "living document". Please help us to strengthen it with your feedback and comments.

Contact us at: abigail.noble@schwabfound.org and judith.mayer@wi.tum.de

1. Introduction – Creating Your Board

1.1 What is governance? Why is it important for social enterprises?

Governance is formally defined as "systems and processes that ensure the overall direction, effectiveness, supervision and accountability of an organization" (Cornforth, 2003). Governance mechanisms can include governing boards, monitoring systems and signalling mechanisms like reporting or codes of conduct.

The focus of this document will be on creating and managing boards, while acknowledging that the governance of social enterprises covers a broader field than governing boards.

Social enterprises address the most pressing problems societies face through employing scalable, self-sustainable and innovative business models. They must balance financial responsibilities and social impact and must coordinate among multiple stakeholder groups, including investors, employees, regulators, clients and beneficiaries. As a result, social enterprise leaders manage complex trade-offs.

A carefully selected, well-designed and well-managed board will help the social enterprise reach its goals. Yet many social enterprise leaders are reluctant to set up a board.[1] They express concern that a board will limit their management team's effectiveness. While this is a valid concern, it demonstrates the lack of understanding of how boards can facilitate an enterprise's success and make the management team's work easier. Furthermore, of those social enterprises that have a board, many fail to engage their board actively in the strategic guidance and oversight of their organization. This represents a lost opportunity.

Most countries have developed guidelines around governance and boards for the corporate and often also for the non-profit sector. See Appendix 4.11 for a comprehensive list of national governance guidelines and codes of best practice.

1.2 Why create a board?

For social enterprises, governance is key to both overseeing compliance with policies and regulations and to safeguarding the organizational mission while meeting the demands of various stakeholders. Social enterprises limit their potential and undermine their mission when they do not invest appropriate effort and thought into creating a well-functioning board. In short, if applied correctly, a board strengthens, not weakens, the leadership and helps to ensure the success of the social enterprise.

Boards can help management teams reach their enterprise's goals and mission in several ways:

- *Provide strategic support and expertise:* Organizations can compensate for a lack of in-house competencies or expertise through board members.
- *Provide access to networks:* Board members open doors to valuable external networks (e.g. fundraising, advocacy and the recruitment of high talent).
- *Ensure the vision and legacy:* Boards include and empower carefully selected individuals to guide the enterprise. This ensures the organization's vision succeeds beyond the efforts of the founder or management team.
- *Signal credibility to external stakeholders:* Investors, contractors and customers may trust the organization more if it has well-regarded board members.

1.3 How should boards evolve over the lifespan of a social enterprise?

No single governance structure fits all social enterprises or even fits the same enterprise over time. Rather, governing boards should be tailored to the organization and be dynamic to the changing needs of the organization over its lifespan. Social enterprises should evaluate and modify their governance structures regularly and in particular during the following circumstances:

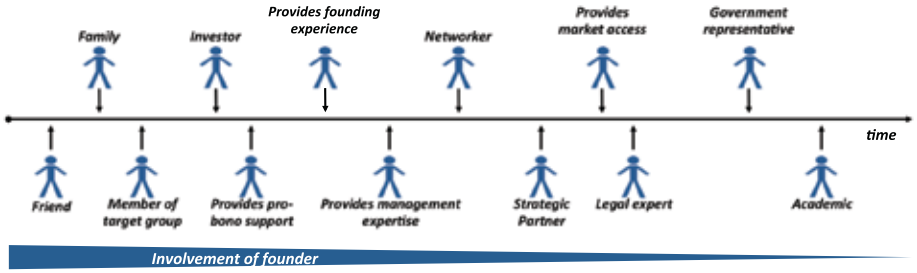
- The enterprise reaches the next lifecycle stage
- The legal structure of the enterprise changes
- The financial structure of the enterprise changes, most commonly related to the shareholder base
- The external environment changes (e.g. new government regulations)
- The founder steps down

[1] Remark to legal regulations: While some legal forms require the inclusion of a supervisory board or non-executive board members, others do not. As shown below there are several reasons to establish a board even if it is not legally obligatory. There are two types of voluntary boards: informal boards without any regulations and boards formally organized by documents like bylaws or rules of procedures. All aspects within the manual should be considered as recommendations. It is important to obtain applicable laws and make sure to comply with them.

1.3.1 The enterprise reaches the next lifecycle stage: governance needs to adapt

During the *start-up stage* when experimentation and innovating is necessary, social enterprises may rely on advisory committees or informal boards (i.e. boards without any legal obligations or decision-making authority) given these allow for more flexibility. As social enterprises scale, they should establish more formal governance structures. During transitional stages, governance mechanisms are crucial, especially when the social enterprise's brand is well known, the environment is complex and important decisions must be made. When the social enterprise's business model is mature, governance may evolve into a more participative structure. A participative structure ensures that the well-established enterprise remains in touch with its stakeholders and true to its vision, mission and goals.

Figure 1: Exemplary board composition and main tasks over the lifecycle;



- Create mission & vision
- Approve business plan
- Consult key stakeholders
- Define performance indicators & benchmarks

- Increase visibility
- Enhance and preserve culture (quality control)
- Provide resources & network access
  Plan succession

- Detect further business opportunities
- Prove system change achieved (advanced impact measurement)

See Appendix 4.1 for a more comprehensive description of board composition and tasks over the lifecycle

1.3.2 The legal structure of enterprise changes: governance needs to adapt

While the governance of a non-profit enterprise is mainly concerned with achieving its mission, the governance of a for-profit enterprise focuses primarily on shareholder return. If a social enterprise is organized as a for-profit entity, mechanisms have to be put in place to safeguard the mission while controlling for a reasonable shareholder return.

Some governments have recognized this need and established legal structures that protect the social mission as well as financial obligations of the enterprise, such as Benefit corporations (B-Corps), low-profit limited liability companies (L3Cs) and Community Interest Companies (CICs).

In the countries that do not recognize these legal structures, social enterprises may create a hybrid legal structure, which consists of both a for-profit and a non-profit entity. In many cases, the non-profit entity will hold a golden share in the for-profit entity, allowing the profits to be used to run the non-profit activities. Some have a central board or ensure that 50% of the for-profit ownership is with the board members of the non-profit entity.

1.3.3 The financial structure of the enterprise changes: governance needs to adapt

Capital providers are an influential stakeholder within governance, and can therefore play an important role in the success of the social enterprise's mission. Equity investors, for instance, often strongly influence the operations of an organization. Thus, it is important that the interests of the investors be aligned with the mission of the social enterprise.

This alignment might not be problematic at the early stages of a social business or when profits are achieved at the same time as a strong social impact. However the interests of the founder and equity investors may diverge when the organization takes decisions that require a trade-off between the founding social mission and achieving a financial return. These often lead to cumbersome board struggles.

During the discussion and negotiation process with investors, social enterprises should therefore look beyond the cost of capital to the non-financial terms in which the financing is provided. Funding sources can be categorized in two groups:

1. *Debt, repayable hybrid capital, mezzanine capital:* Offers the social enterprise more decision-rights on how the funds are used. However, they limit the cash-flow available for operational investments, and therefore can limit the growth plans of the enterprise.
2. *Equity, grants, non-repayable hybrid capital:* Limits the decision-rights on how funds are used as equity investors and donors require active involvement in those decisions. However, equity stakes do not require continuous repayments, and therefore can be more financially attractive for growing enterprises.

See Appendix 4.2 for a link of financing instruments and governance requirements

A recent study found that social enterprises use multiple capital sources to be financially sustainable and to grow (Monitor Group, 2012). Often traditional investors want to mitigate their risk by having philanthropic capital committed to the enterprise. Philanthropists solely focus on the social return and do not require a financial return while investors mandate a healthy financial return in addition to a positive social return. Governance is key to balance the different capital providers' interests as well as to ensure the enterprise remains true to its mission.

There are two solutions to mitigate the influence of investors in creating mission drift:

1. Create non-voting shares for equity investors that are content with a more passive role. This allows key actors (e.g. the founders) to keep the organization on mission.
2. Retain the right of social entrepreneurs (written into the constitution or charter of their organization) to select a set number of board members.

1.3.4 The external environment changes: governance needs to adapt

When a government implements new policies and regulations and the social enterprises must change the way they operate, such as new reporting standards for enterprises or new regulations for a particular industry (disclosure of microfinance terms or educational enterprises requiring additional certification and approvals), the social enterprise must ensure it has within its own organization and board the means with which to manage these new requirements and hold itself accountable.

Social enterprises can adapt to the changes in the environment by institutionalizing new practices and policies that automate compliance with new regulations and policies. It is also a best practice to make sure someone on the board is able to oversee and hold accountable compliance with these new regulations and norms. Three possibilities exist to ensure this: an existing board member develops that expertise, the board recruits a new member with that expertise, or the board develops a committee dedicated to those compliance issues.

1.3.5 The founder steps down: governance needs to adapt

The start-up and scaling stages. This often ensures the founding mission and vision are woven into all strategic decisions but it also means that the power and influence of the enterprise rests in one person. When a founder steps down, the governance structures must step in to fill the void. The board itself can replace the founder as the key decision-maker during the transition period as well as institutionalize the mission, vision and values into the culture of the enterprise and into the operations.

The board as well as management should plan the succession a long time ahead and include it within the strategy. Actions that could be taken by boards include the following:

- The board could select a new chief executive officer (CEO) from its own members who is already familiar with the operations and the strategy of the business.
- The board could provide support to a new external CEO. The board may also find a suitable mentor for the CEO.

1.4 How do I choose the right governance structure?

There is no "one size fits all" for social enterprises. Specific organizational factors like size, complexity or maturity influence the optimal governance structure. The following table explains how the circumstances of a social enterprise lead to specific considerations the enterprise must address to create a well-functioning governance structure.

Table 1: Choosing the right board structure; own illustration

Instructions: *Social entrepreneurs should consider all circumstances mentioned and then combine the recommendations.*
If none of the statements below applies, social enterprises should consider **Option 1** *and "keep it simple".*

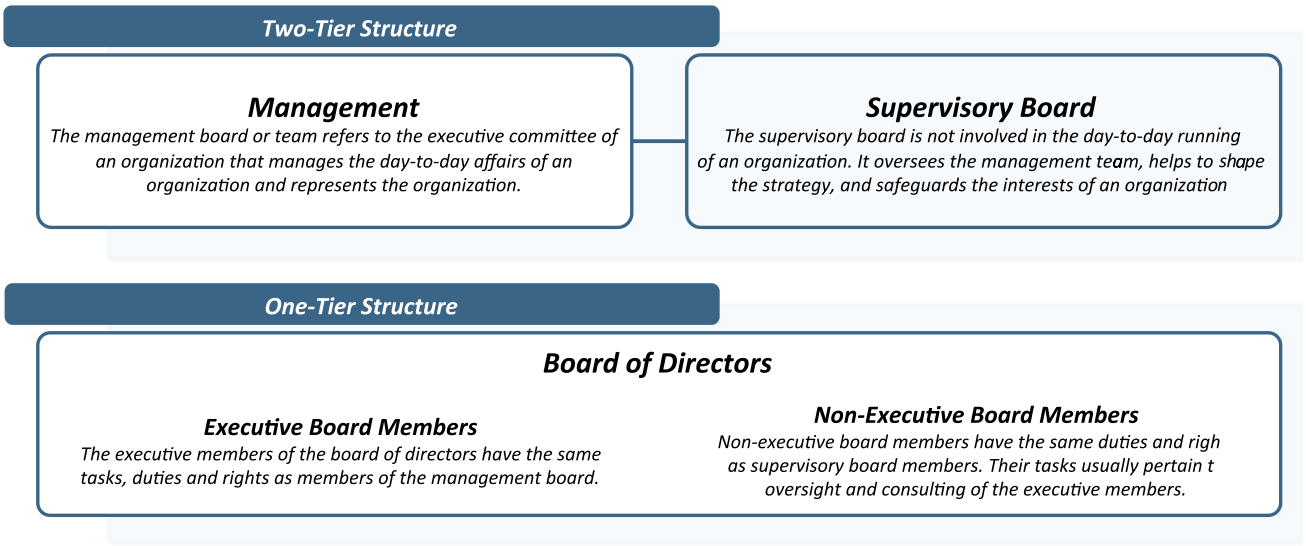
CIRCUMSTANCE	CONSIDERATION	RECOMMENDATION
Organization operates in **one country** *with a* **clearly executable strategy**	*Governance is needed to provide overall "good health" checks on the enterprise*	Option 1: *Keep it simple*
Organization operates across **several countries or regions**	*Governance must* **include local knowledge**	Option 2: *Several boards;* **refer to box 01**
Organization has **several boards**	*The work of the boards must be* **well coordinated**	Option 2: *Several boards;* **refer to box 01**
Board faces a **high workload** *or specialized tasks*	*Current board's* **capacity** *is insufficient to fulfil tasks*	Option 3: *Board committees and task forces;* **refer to "Committees"**
Organization cannot **insure board against lawsuits**	*People might be* **reluctant to join** *the board*	Option 4: *Advisory council plus legally binding board;* **refer to box 02**
Target population *should be represented on the board*	*Target group cannot* **assume legal liabilities** *due to a lack of experience*	Option 4: *Advisory council plus legally binding board;* **refer to box 02**
Organization has a **hybrid legal** *structure* **(mix of for- and non-profit)**	*Governance is a mechanism to coordinate actions and safeguard the mission*	Option 5: *Hybrid organizational structures;* **refer to box 03**

1.4.1 OPTION 1: Keep it simple

The simplest structure is a single governing board, with either a one-tier or two-tier structure. In Anglo-Saxon influenced countries, (e.g. the USA and UK) the one-tier system, where there is a single board composed of both the management team and external non-executive members, is more common. The one-tier system usually refers to a board of directors.[2] The two-tier system where the management board and the supervisory board operate in parallel is often seen in continental Europe (e.g. Germany and the Netherlands).

[2] For reasons of simplification, we will mainly be talking about boards and board members in the manual, referring to supervisory boards, advisory boards or non-executive board members.

Figure 2: Two-tier vs one-tier structure; own illustration



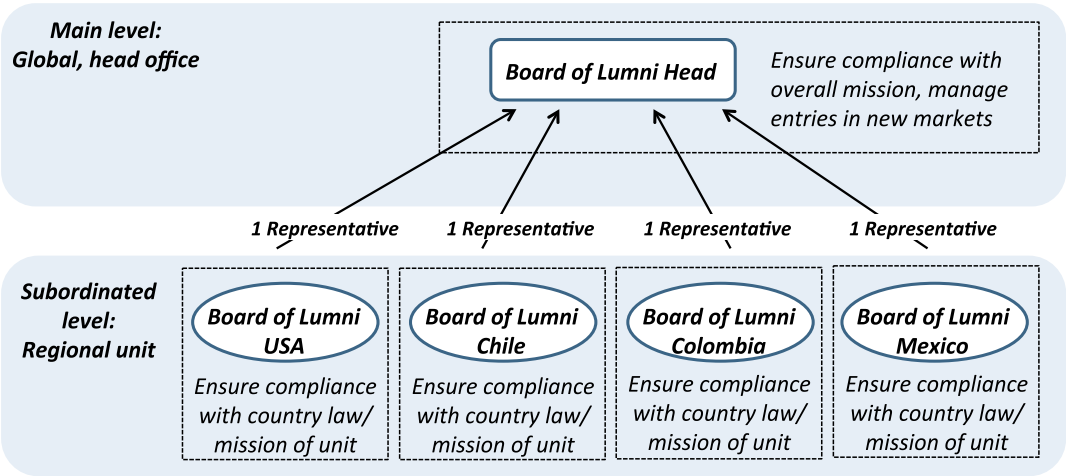
1.4.2 OPTION 2: Several boards

Organizations that operate across several countries or with several subsidiaries might have several governance boards. Here, the enterprise can differentiate according to local circumstances and align across geographies and sectors. The disadvantage with this model is increased coordination efforts and management of the boards.

There are two ways to structure relations among several governing boards. One, all boards have equal rights (horizontal structure). Two, the boards have a hierarchical or vertical structure. While a horizontal structure is more democratic and facilitates autonomous decision-making among the units, enterprises with horizontal boards are more likely to have divergence in strategy and practices across the units and greater risk of mission drift of the enterprise. On the other hand, a vertical board structure, which puts more effort into ensuring alignment across all units, restrains the independence of the units and therefore is less likely to be effective within enterprises that thrive on the diversity of operations and practices as well as on continuous innovations.

Several boards, vertical structure

Case study: Lumni designs and manages social investment funds that invest in the education of diversified pools of students across Colombia, Chile, Mexico and the USA. Students who graduate pay a fixed percentage of their income for 120 months after graduation. Lumni has a separate board for each region and a member of each regional board is represented on the board of Lumni's head office.



For social enterprises that are expanding into new markets and scaling into new geographies, vertical governance structures can help ensure the centralized coordination of strategy and operational alignment. However, for social enterprises that prefer to scale using a decentralized approach (e.g. franchising) a vertical governance structure might limit local autonomy for growth decisions and a horizontal governance structure empowers local decision-making and differentiation.

Social enterprises with several boards can align and coordinate across boards by:

- Requiring all its boards to use a uniform reporting template across all entities
- Ensuring one representative of each board participate in an annual cross-entity meeting
- Encouraging the transparency of performance metrics and creating a "positive competitive pressure" among the entities on shared enterprise goals and practices

1.4.3 OPTION 3: Board committees and task forces

Some organizations establish committees within the board to delegate ongoing functions and to leverage members' capabilities. As committees lead to increased workload, they should be created only for specific work streams and when specific skills sets are required. Examples are:

- Audit and finance committee: Scrutinizes capital expenditures, oversees financial statements
- Human resource committee: Focuses on key senior appointments and compensation

Task forces of a temporary nature and invitations of external experts are an option when the work content is more dynamic and benefits from external perspectives.

Committees

Table 2: Board committees: Purposes and membership; own illustration

Task/Purpose	Proposed Members
Audit and finance committee	
– **Finance:** *Help with the preparation of the annual budget; review performance against budget; scrutinize major capital expenditures*	*Finance experts*
– **Investment:** *Appoint and oversee investment advisers; advise on investment strategy*	*Experts with investment and valuation know-how*
– **Audit**: *Oversee the annual audit; review the adequacy of internal control systems; oversee risk management; oversee the accuracy of financial statements and reports*	*Audit experts*
– **Compliance:** *Ensure compliance with agreed structures and law; deal with breaches*	*Legal experts*
– **Fundraising:** *Oversee the fundraising strategy; contribute ideas and contacts; provide governance oversight of fundraising activities**	*Board members with a wide network and fundraising skills*
Human resource/nomination/remuneration committee	
– **Compensation:** *Advise board on remuneration of the CEO; advise on overall remuneration policy*	*Senior board members; independent board members*
– **Nomination:** *Plan board and committee succession; manage search and selection process; oversee election process and the induction of new board members*	*Independent board members*
– **Human resources:** *Oversee employment policy and procedures; hear disciplinary appeals and complaints*	*Well connected board members*
Service and research committee	
– *Provide advice on issues regarding main services, and support research and development of new concepts*	*Members with specific know-how and background in the organization's industry*

*It is not common to have fundraising committees in the corporate world. However, when boards should help with fundraising, such a committee might be relevant.

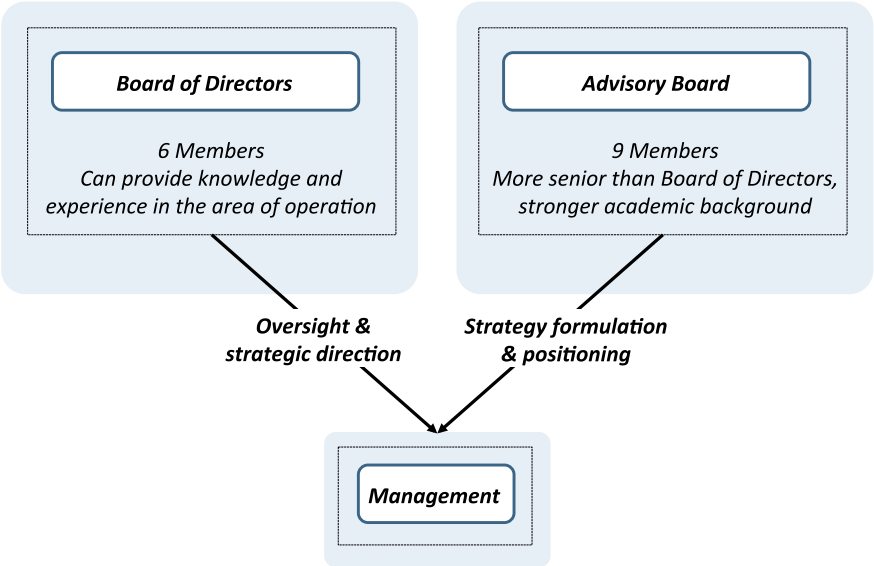
1.4.4 OPTION 4: Advisory council plus legally binding board

Board membership requires significant experience and knowledge not only because that is what the enterprise requires but because board members can be held liable before the law if they do not perform their duties diligently. Therefore, it is often hard to include certain stakeholder groups (e.g. the target group) if they do not possess sufficient expertise and experience. Furthermore, some prospective board members, such as key customer stakeholders or celebrities, might be reluctant to join a board if they are not insured against lawsuits. To accommodate this, the social enterprise can set up an advisory council in which members are not legally liable. For some individuals, the prestige attached to serving on a formal board as opposed to an informal advisory council outweighs the potential legal liability.

Note: if a member of an advisory council has significant decision-making power for the enterprise, the courts may deem this member a "shadow director" and hold him/her liable (see CIC regulations; Community Interest Companies, 2005).

Advisory council in addition to legally binding board

Case study: Aidha is a "micro-business school" that offers more than 1,000 micro-entrepreneurs per year skills training to entrepreneurs at the bottom of the pyramid

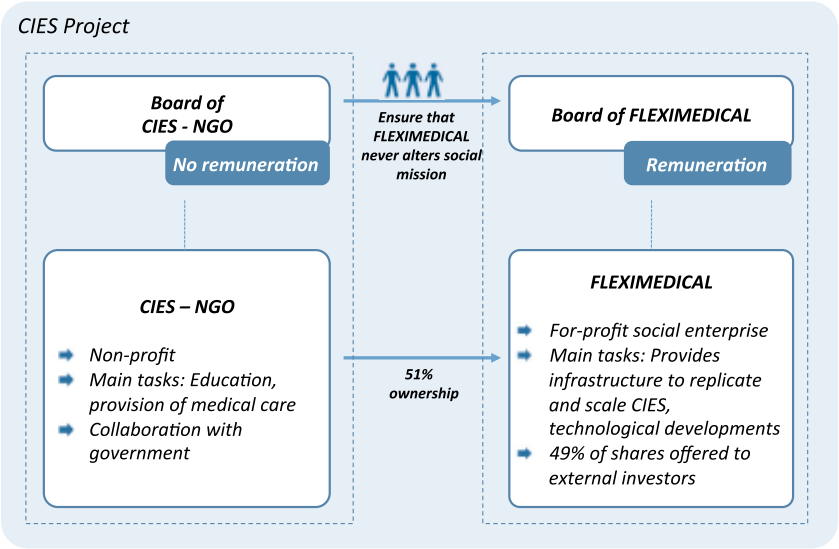


1.4.5 OPTION 5: Hybrid organizational structures

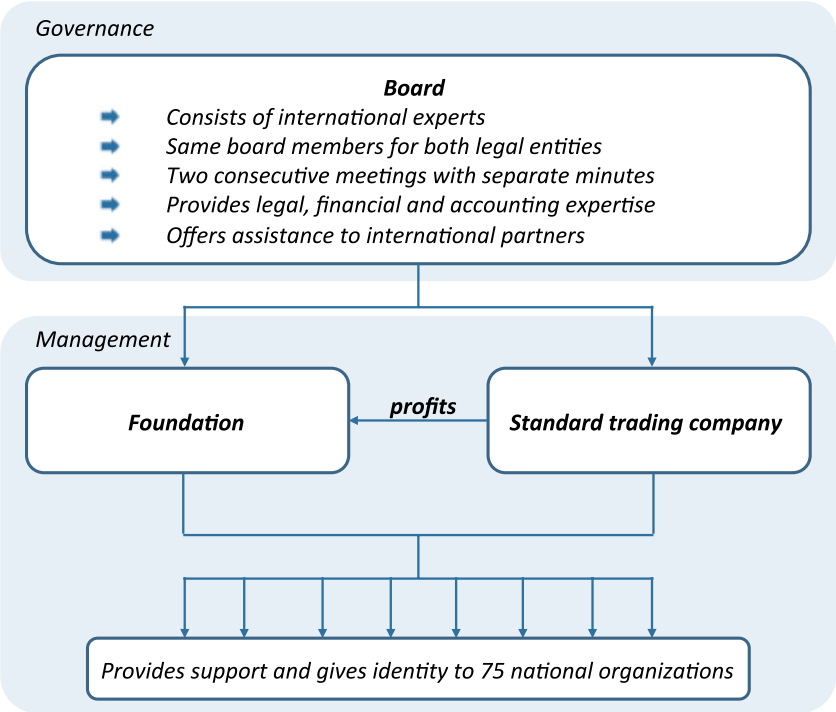
Social enterprises sometimes combine non- and for-profit legal entities within their organization. An additional legal entity is often created out of necessity, e.g. investor requirements. It is important that the governance of both entities be well coordinated and that both be steering towards the same mission. The following box shows case studies on how to coordinate several legal entities in order to serve a common mission.

Hybrid organizational models

Example: Projeto CIES has created a "hospital in a truck" that has offered over 24,000 people in 15 Brazilian cities advanced technology for 10 medical specialties.



Example: The Homeless World Cup works across 70 countries and uses football tournaments to end homelessness.



1.5 What is the right size for my board?

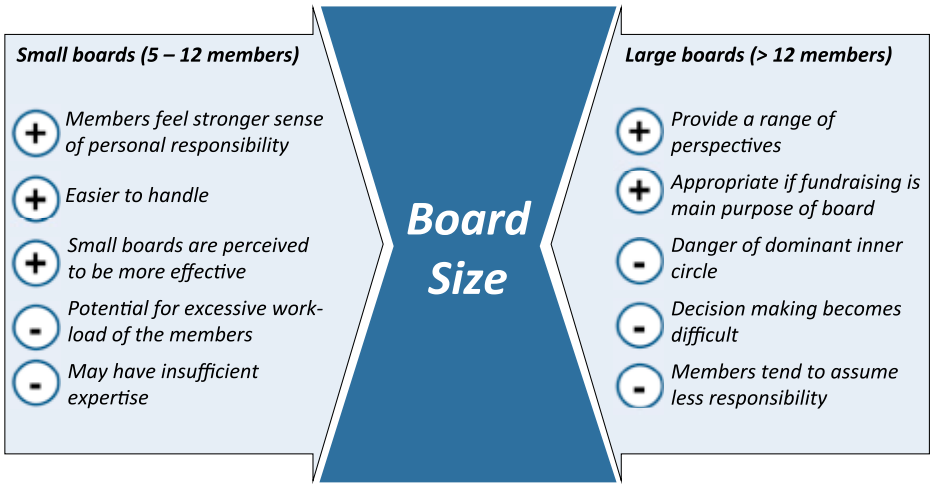
The optimal size of a board depends on the needs of an organization. Large boards (>12 members) create more administrative and coordination efforts and include the danger of ineffective oversight due to some board members free-riding on the efforts of others. Among the social enterprises in the Schwab Foundation network, for-profit social enterprises tend to have smaller boards than non-profit social enterprises.

Table 3: Median board size; Survey Size = 71; own illustration

Organizational model	Non-profit model	Hybrid model	For-profit model
Median number of board members (only non-executives)	10	6	5

Especially in the US, donors are often granted a board seat and large boards often constitute fundraising boards. In contrast, boards of for-profit organizations are rather kept small in order to stay manageable. Research on board effectiveness suggests that smaller boards positively influence organizational performance (Eisenberg et al., 1998). Furthermore, an uneven number of board members seems favourable to facilitate the decision-making process.

Table 4: Considerations on board size



1.6 How do I recruit the right board members?

Many early-stage social enterprises build boards out of their network of family and friends. While this may reduce the initial effort, it can be a disadvantage at later stages if board members do not possess the relevant skills, representation, network and reputation to provide strategic guidance and oversight to the social enterprise.

To search for capable board members, social enterprises can:

- Solicit recommendations from investors, foundations and other social enterprises
- Search through intermediary platforms (e.g. www.bridgestar.org)
- Research, identify and reach out to people with expertise in or passion for the cause
- Attend networking events and ask intermediaries for support in making contacts

In selecting potential board members, social enterprises should regard the following:

- *Alignment with financial and social objectives:* Board members who have worked with double bottom lines or have deep commitment to social responsibility are more likely to ensure the organization remains true to its goals.
- *Complimentary personality:* Dominant personalities can influence day-to-day business for their personal goals, which can put the whole enterprise at risk. Furthermore, powerful people could intimidate other board members. Thus, the ability to work in a team is an important characteristic of board members.

1.6.1 Expertise

Boards benefit from having members with diverse areas of expertise and experience as they provide new insights and perspectives (Siciliano, 1996). Some areas of expertise are needed by all social enterprises, such as legal, financial and accounting expertise. An organization should consider the current skills set of its senior management team and board when selecting new board members. A skills grid may help a social enterprise evaluate where there are gaps in its skills.

Table 4: Skills grid to determine skills gaps, based on Hudson, 2011

	John	Ann	Daniel	Susan	SUM	Minimum level
Experience in the sector (e.g. early childhood education)	*2*	*0*	*0*	*1*	**3**	**2**
Start-up experience (e.g. worked for 1+ yr in start-up)	*0*	*1*	*0*	*1*	**2**	**2**
Finance skills (e.g. CFA, CFO experience)	*0*	*2*	*0*	*1*	**3**	**4**
Fundraising skills (e.g. network of HNWI)	*0*	*1*	*0*	*0*	**1**	**2**
Legal skills (e.g. lawyer or barrister)	*0*	*1*	*2*	*0*	**3**	**2**
Accounting/audit skills (e.g. CPA)	*0*	*0*	*2*	*0*	**2**	**2**
Marketing/public relations	*1*	*2*	*0*	*0*	**3**	**2**
[0= no relevant experience; 1 = some knowledge; 2 = substantial skills; Red lines: skills gaps]						

1.6.2 Representation of stakeholders

Governance is not simply about protecting shareholder rights but about safeguarding and balancing the interests of all stakeholders.

Stakeholders include investors, customers/beneficiaries, employees, government officials or relevant community members (e.g. people who reside in the neighbourhood of the social enterprise). Boards with members from various stakeholder groups represent a larger variety of perspectives, which serves to legitimize the operations of an enterprise in front of these stakeholders. However, multiple stakeholder boards may require more active management when stakeholders are resolute in defending narrow interests instead of the interests of the whole organization (Spear et al., 2007).

Some social enterprise boards seek representation from target populations. Several cooperatives and microfinance institutions, for example, opt to include representatives of their clients or beneficiaries on their boards. One caveat with this approach is that the beneficiaries might not have relevant expertise and experience as a board member to provide strategic oversight. Alternative approaches are to create a supplemental client advisory council, to include advocates of the interests of the beneficiaries on the board or to include beneficiaries in the board with a consulting function only, without granting them voting rights.

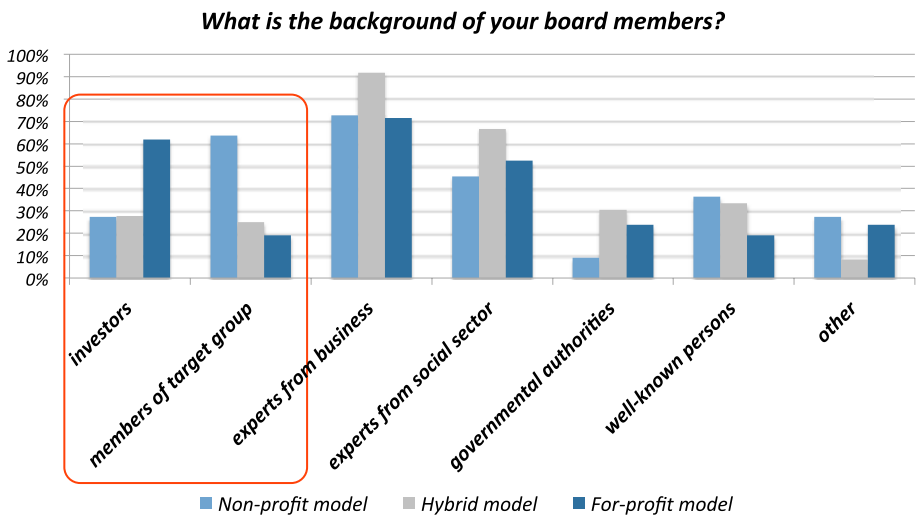
Note: When selecting board members, social enterprises should be aware of potential conflicts of interest.

See Appendix 4.3 for further information on conflicts of interest

Research by the Schwab Foundation showed the following in relation to board membership:

- Overall, there is a strong focus on expertise within board membership: experts from business are the largest represented group (included in over 70% of all boards).
- Investors were mostly included in boards of for-profit social enterprises (>60%) but quite seldom in boards of non-profit or hybrid social enterprises (<30%).
- Vice versa, the target group was more frequently represented in non-profit social enterprises (>60%) than in boards of for-profit or hybrid models (<30%).

Figure 4: Background of board members; Survey Size = 71; data was obtained by sending a survey to the social entrepreneurs of the Schwab Foundation; own illustration



1.6.3 Network access and reputation

A social enterprise can raise awareness or legitimize its work by choosing board members with esteemed reputations. Well-regarded board members can facilitate external connections and attract similarly talented and respected people to join the board. Yet, they can also weaken board functioning if they yield disproportional influence in decision-making or if they are highly risk averse to protect their own reputation.

1.7 How should I appoint board members and for what term of time?

Nomination and election of board members frequently differs among for- and non-profit organizations. While, shareholders of for-profit organizations often maintain the right to nominate/select a significant part of board members, nomination and election in non-profits is often based upon a wider range of stakeholders or upon the members of a membership organization.

Relevant questions to ask potential board members before selecting them include:

- What is your understanding of the mission and vision?
- How would you measure the success? (expectations of social, financial return)
- Where do you see the enterprise and the sector within the next 5-10 years?
- How much time can you devote to attending board meetings?
- Which skills or other benefits (like networks) can you provide to our enterprise?

Most boards limit terms to 2-3 years and allow for up to four terms. Advantages of limited terms are that it is easy to get rid of certain board members. However, it also induces additional efforts to recruit and elect new board members. Boards should predetermine its rotation process. It is good practice to have staggered terms to ensure both the retention of valuable skills and the infusion of new ideas, expertise and perspectives. Board members should ask themselves regularly whether they are still adding value or can no longer provide any benefits for the enterprise. When electing new board members, social enterprises should rethink the size of their board.

In the short term, a well-run board can provide valuable and time-saving guidance to the management team. In the long term, it can ensure the success of the social enterprise. On the flip side, a poorly run board can make the management team's work more difficult.

This chapter focuses on how management teams can create the optimal performance of the board through addressing key board tasks, responsibilities and communications procedures as well as building a high-performance work dynamic.

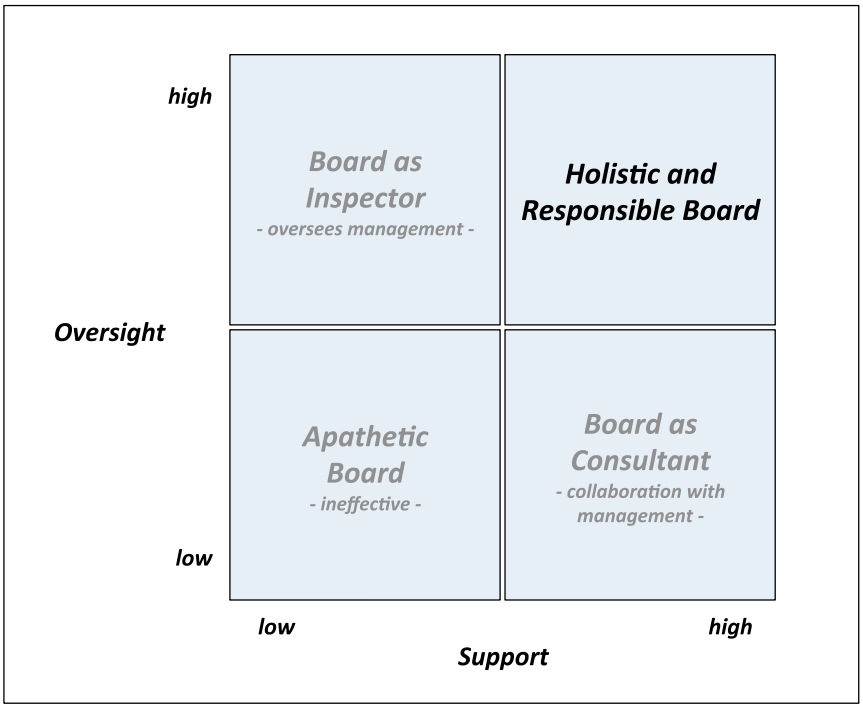
2. Managing Your Board for Optimal Performance

2.1 What are the rights and duties of my board members?

The focus of management should be on execution, while the focus of the governance body should be on providing guidance and oversight. Boards should not get involved in day-to-day operations but should oversee the results of these operations. Senior management must ensure that the boards' decisions are implemented.

Boards serve two primary responsibilities: support and oversight. While many view these as mutually exclusive, they are complementary in a high-performing organization.

Figure 5: Board tasks; see Kreutzer & Jacobs, 2011 for figure and a description of the types



2.1.1 Support

Support refers to four areas. First, boards constitute sparring partners that provide strategic guidance and challenge management. This also includes helping to develop innovative and effective business models. Second, board members provide access to their networks, which can help raise awareness of the social enterprise as well as foster fundraising and business development. Third, boards serve as ambassadors for the mission of a social enterprise and thus provide advocacy and legitimization. The fourth area includes aspects of oversight: ensuring cash flows to increase the sustainability of the business.

2.1.2 Oversight

Oversight primarily refers to safeguarding the mission of a social enterprise. Boards monitor the performance of management against benchmarks that reflect the double bottom line. Thus, monitoring concerns social as well as financial performance. While financial indicators are easy to measure and compare, social performance is often hard to seize. To avoid an inordinate focus on financial performance, social enterprises should pay attention to defining performance indicators for the social mission. Furthermore, boards should emphasize the need for external audits as well as accountability measures to increase transparency towards external stakeholders.

In addition, oversight also refers to compliance. It is the duty of the board to ensure that management complies with its own governing document as well as with legal requirements. Ideally, boards should have a list of compliance requirements and check periodically if they are being met. Furthermore, the board is responsible for appropriate risk management.

2.1.3 Approval of management decisions

A task amid support and oversight is the approval of certain management decisions. Board approval should serve to guarantee conformity with the overall mission. Furthermore, board approval constitutes a form of legitimization to communicate certain decisions in front of the team. Topics that require board approval include the following:

- Decisions related to the annual budget
- Decisions on financing
- Changes in ownership structure
- Remuneration of the chief executive and the management team
- Succession of the chief executive and the management team
- Decisions about overall strategy

Organizations should define which matters require board approval to ensure proper oversight but not to micromanage the management team. For example, board approval is only needed for investments above a certain threshold.

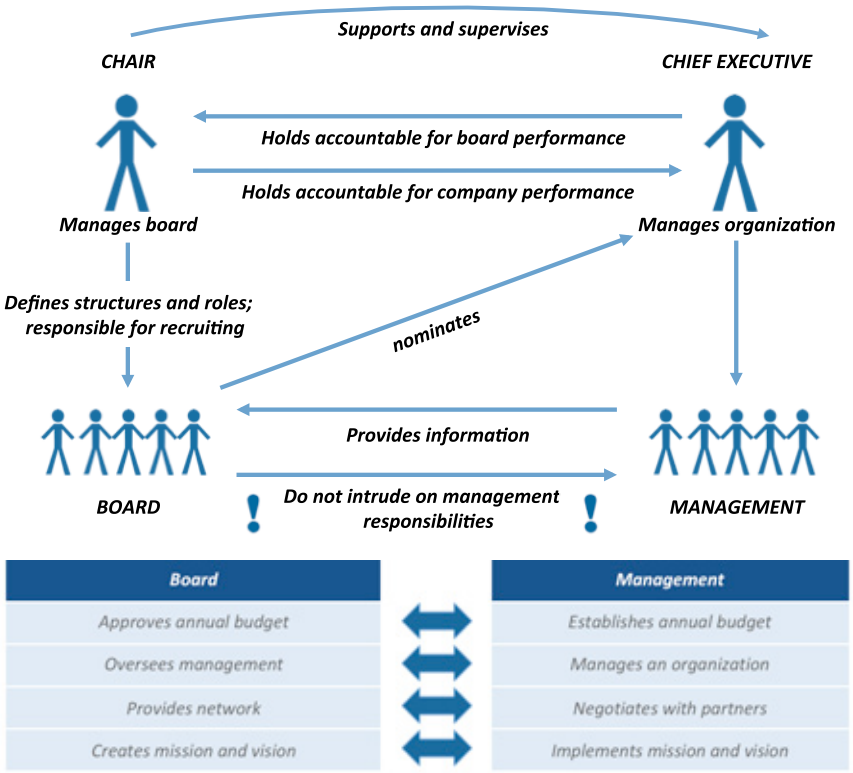
2.2 What are the roles and responsibilities of the board chair?

The roles of chief executive and chairman are fundamentally different: while the responsibilities of the chief executive entail running the organization's business, the board chair is responsible for running the board, which requires broad experience and the ability to process knowledge on several high-level issues. Duties of the chair include determining meeting dates, addressing conflicts among members, representing the organization at public events as well as boundary spanning between board and management.

In one-tier or voluntary boards, a single person often exercises the roles of chairman and chief executive. Such a structure erodes the system of checks and balances and constrains the independence between board and management. A joint leadership structure provides a unified focus and communicates strong leadership to the external community, while splitting these two functions bears costs and administrative efforts. Thus, organizations face a trade-off between effective monitoring (the separation of the two functions) and strong leadership.

If a single person holds both positions, the board should appoint another board member to lead on any issue that requires separation of duties, such as reviewing the compensation of the chief executive. Furthermore, if a new chief executive is appointed, it is advisable to pair the new chief executive with a chairman who is more seasoned.

Figure 6: Board vs Management; own illustration



2.3 How do I create a board culture?

Creating the right board culture will increase the commitment and value of board members to the organization. When the board is diverse, it is critical to establish a culture of active listening, respect for different perspectives, productive dialogue and the shared interest of coming to a collaborative decision (as opposed to always getting their way).

2.3.1 Onboarding the board

New board members should be introduced to the organization's work, current strategies and plans. New board members should meet the team to understand the organizational culture and daily operations. Without understanding first the intricacies of the organization, the board members will not be able to provide constructive support and oversight. Familiarity with the entire team makes it easier for the board to raise concerns.

2.3.2 Recognizing the board, and valuing their commitments appropriately

While board members of social enterprises are rarely incentivized by monetary remuneration, some social enterprises recognize and reward board members emotionally for their time and commitment. Beyond sending thank you notes, some social enterprises invite board members to site visits or to join work outings. Compensating for expenses incurred out of pocket, depending on the financial situation, may be a reasonable gesture.

2.3.3 Recognizing the board, and valuing their commitments appropriately

The frequency of board meetings depends on the current situation of an enterprise. There should be at least two meetings per year to keep board members closely on track with the development of an organization and to maintain familiarity among board members as well as between board and management. When a social enterprise must navigate rough waters (e.g. complex environments, changing needs), the board should meet more often. Meetings can take place over the phone. However, at least one face-to-face meeting should take place per year. One session per year should focus on strategic issues and a roadmap for the next 3-5 years.

Board decisions require a quorum, or minimum number of board members present for official decisions (at least two-thirds of the members). To diminish administrative efforts during board meetings, voting procedures as well as required majorities should be determined in advance.

See Appendix 4.9 for exemplary rules of procedure for boards

Information about past months as well as an agenda should be sent at least one week in advance of board meetings, allowing board members sufficient time to add topics and prepare. If management wishes to propose substantial changes, such as amendments to the constitution or the strategy of an organization, the proposals should be sent in advance.

Figure 5: Board tasks; see Kreutzer & Jacobs, 2011 for figure and a description of the types

Topic	Duration
Administrative issues	*5 minutes*
Wrap-up of past months, short discussion of open questions	*10 minutes*
Matters for approval: group to approve en bloc	*10 minutes*
Discussion of strategic issues, e.g.: – *Financial situation and annual budget* – *Human resources* – *Scaling*	*80 minutes*
Definition of next steps and responsibilities	*20 minutes*
Evaluation of meeting	*5 minutes*

After the meeting, board members should receive minutes that clearly indicate next steps as well as individual responsibilities to achieve them. Furthermore, minutes should include place, day and time, participants, decisions, deliberations, voting results and the manner in which resolutions were passed.

2.4 How should management report to the board?

Reporting increases transparency and serves to legitimate the existence of an organization. Regular updates about an organization's development keep board members involved and serve to maintain trust.

Management should report at least quarterly to their board members, informing them about the current situation of their organization. Reports in the course of the year should contain the following:

- cash flows, a comparison of budget and actual financials
- social performance indicators compared to benchmarks
- management comments about important incidents, the development of external factors, etc. (2 pages maximum)

See Appendix 4.4 for a template for a quarterly update

A more detailed report containing the balance sheet as well as the profit and loss statement is required at the end of a year.

To set up an appropriate reporting system, the management and board need a clear and common understanding of the value proposition of the enterprise. The value proposition contains social as well as financial components. While the social element should always be primary, financial aims range from earned income strategies to financial sustainability to the generation of profits. Measures of financial success can be adopted from the corporate world. Social entrepreneurs who are not familiar with financial reporting should consult their board members to benefit from their expertise.

Predefined measures of social impact are often not available and social entrepreneurs themselves are frequently not aware of their impact value chain. Refer to the Social Investment Manual (Achleitner et al., 2011) and to Appendix 4.5 for a description and an example of the impact value chain. Once social enterprises have defined their impact value chain, performance indicators must be determined and monitoring programmes should be established.

See Appendix 4.6 for a reporting cycle

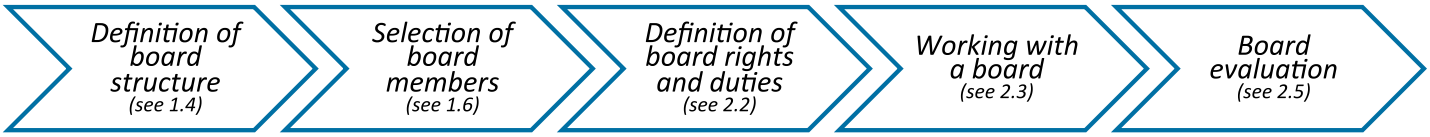
2.5 How do I evaluate the work of a board?

Given that board members desire their contributions to be meaningful, social enterprises should communicate regularly with them about what is working well and what is not. Likewise, board members should take this feedback as an opportunity to make a stronger impact. Instead of assuming good intentions and goodwill lead to effective governance, boards should pay attention to evaluating their own performance.

- A review at the end of each meeting: It is good practice to review a meeting at the end, ask everyone for comments, what went well and what went wrong. To evaluate their own effectiveness, boards should ask themselves at the final meeting of a year: "What would have happened if we had not met last year?"
- Informal conversations between meetings: The board members should communicate with each other about any outstanding issues or conflicts that are preventing effectiveness or affecting the culture of the board. The management team should reach out to the board to surface any issues or to ask for guidance. Board members should regularly ask themselves whether they are still able to add value to the organization.
- Board self-assessment questionnaires every few years: Boards should evaluate their effectiveness and identify development potentials. Appendix 4.7 contains a comprehensive generic questionnaire that can help with this process. Social enterprises should further tailor this questionnaire depending on their current situation. Such questionnaires require significant time and should only be conducted every couple of years. An independent person should analyse them to encourage board members to be open and honest.

3. Conclusion

Figure 7: Content of the guidebook; own illustration



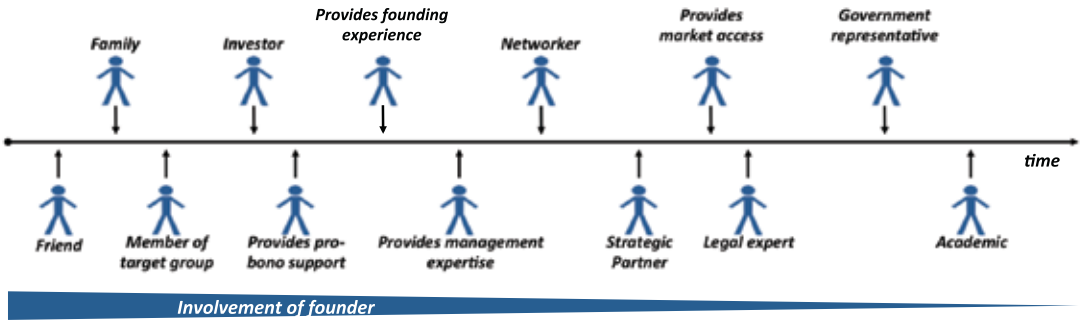
Summarizing, we would like to highlight the following aspects:

- *Organizational lifecycle:* Consider your organization's needs when establishing your governance structure and selecting board members: be aware of your current lifecycle stage and of where your organization is heading (see 1.3).
- *Investor selection:* Consider governance requirements during negotiations with investors (see 1.3).
- *Role of the founder:* Do not rely upon a single person for managing, shaping and overseeing the organization (see 1.3 and 2.2).
- *Board membership:* Balance expertise and stakeholder representation appropriately in board membership (see 1.4).
- *Transparency:* Be transparent and accountable, especially when dealing with conflicts of interest (see Appendix 4.3).
- *Involvement of board members:* Keep board members involved within strategic topics instead of becoming restrained by a reactive board (see 2.3).
- *Reporting:* Keep your board members on track with the developments of your organization. If you report regularly to your board members, it is their responsibility to ask questions (see 2.4).

4. Appendix

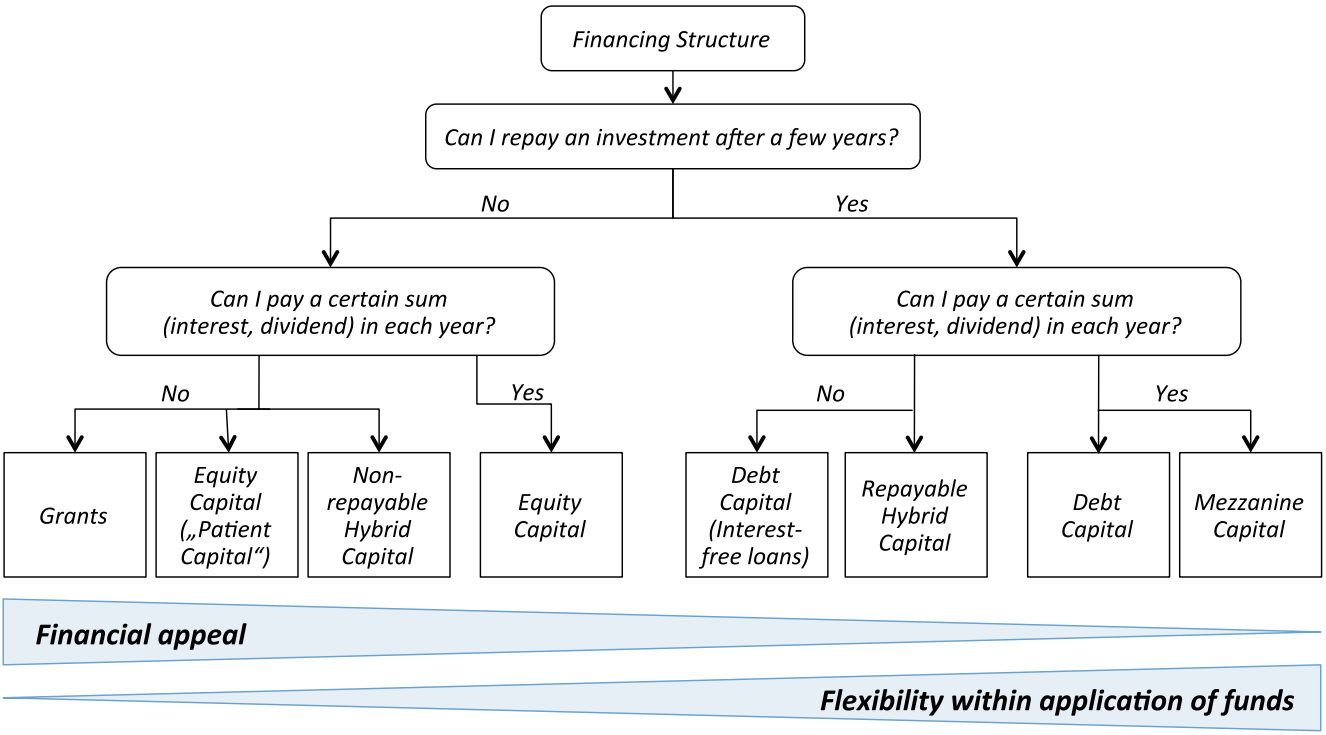
4.1 Board composition and tasks over the lifecycle

Table 6: Board composition and tasks over the lifespan; own illustration

	Start-Up	Scaling	Maturity
Board composition			
Tasks and roles	– Development of vision and mission – Definition of value proposition, performance indicators, benchmarks – Examination of business plan and forecasts – Development of board procedures – Consultation of key stakeholders to increase legitimacy and visibility	– Enhancement and preservation of the culture of a social enterprise – Resource provision, networking – Extension of the talent pool – Definition of quality control mechanisms and standards – Examination of license agreements – Selection of affiliates	– Succession planning of chief executive and management team (jointly with current managers) – Supervision of affiliates, subsidiaries, franchisees – Deep scaling – Institutionalization of the approach
Questions to discuss	– Is there a clear social need? – Is the model scalable? – What are the risks? – Is an open source approach or trademark registration appropriate?	– How can the approach be made easy for others to replicate? – How can the approach be protected against misuse? – How can the profits be used?	– What are further business opportunities? – Has the social enterprise achieved a system change?

4.2 Link of financing instruments and governance requirements

Figure 8: How to choose the right financing instrument; see Achleitner et al., 2011; Spiess-Knafl, 2012



4.3 Conflicts of interest

Conflicts of interest: How to identify and treat them*

Conflicts of interest are inevitable. In anticipation of this, social enterprises and their boards should develop policies and rules of procedure for how to address and deal with emerging conflicts of interest. As a general practice, all potential conflicts of interest should be surfaced and shared for discussion.

Potential sources of conflicts of interest:

- Board members can gain financially from their board involvement (e.g. if the board member has an expertise that the social enterprise requires, such as marketing or accounting)
- Board members can gain non-financially from their board involvement (e.g. a family member may be hired by the social enterprise, or if the board member is also a beneficiary of the social enterprise, she can influence its operations to serve her own interests)
- Board members face competing loyalties and obligations (e.g. the board member serves on two social enterprises that compete in the same market or the social enterprise is part of a governmental, regulatory or oversight body)

How to handle conflicts of interest

Board members must disclose all (potential) conflicts. If a person is conflicted in any decision, he or she should be removed from this particular decision-making process. Conflicts as well as any direct or indirect benefits received by board members have to be disclosed in the annual reports.

***Source**: Charity Commission, 2011

4.4 Template for a quarterly update[3]

QUARTERLY UPDATE

Company: […] Quarter: […] Date: […]

Key figures:

	Quarter ended	Next quarter forecasts
Sales	[…]	[…]
Costs	[…]	[…]
Available liquidity	[…]	[…]

Activity development over the period:

Operation:
- [e.g. organizational developments, events, …]

Production:
- [e.g. set up of new subsidiaries, development of further business opportunities, additional income streams, …]

Research & Development:
- [e.g. impact measurement, external validation, …]

Main strengths over the period:

- [e.g. cooperation, use of resources, …]

Main weaknesses over the period:

- [e.g. excessive expenditures, pending payments, ….]

Comments and additional information on the social impacts:

- [e.g. increase in number of beneficiaries, generation of employment opportunities, …]

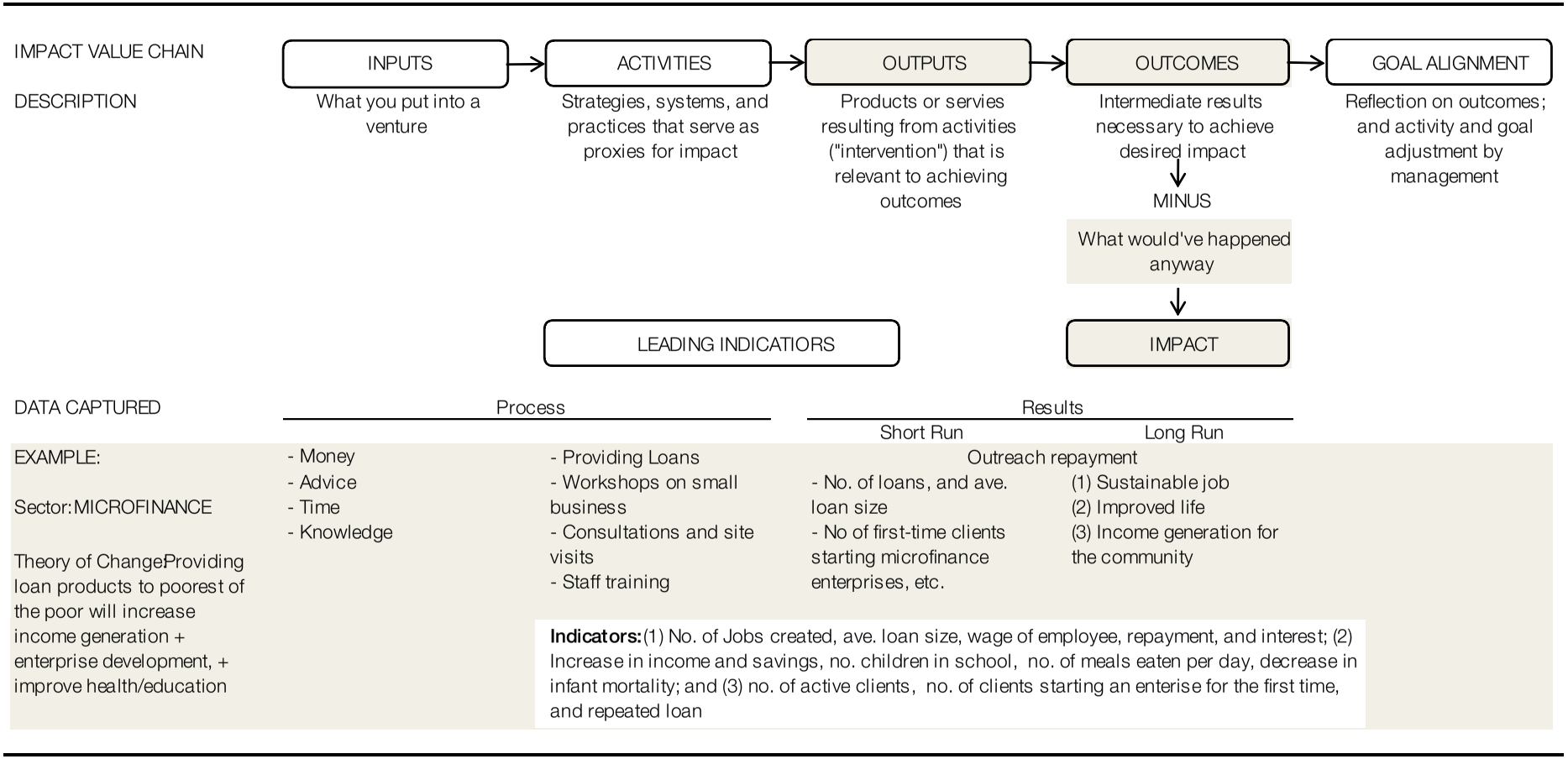
Key aims for the next quarter:

- [e.g. opening new subsidiaries, development of best-practice guides, in-house training, …]

[3] We would like to thank Andreas Heinecke, founder of Dialogue Social Enterprise, as well as PhiTrust for the kind provision of their reporting template.

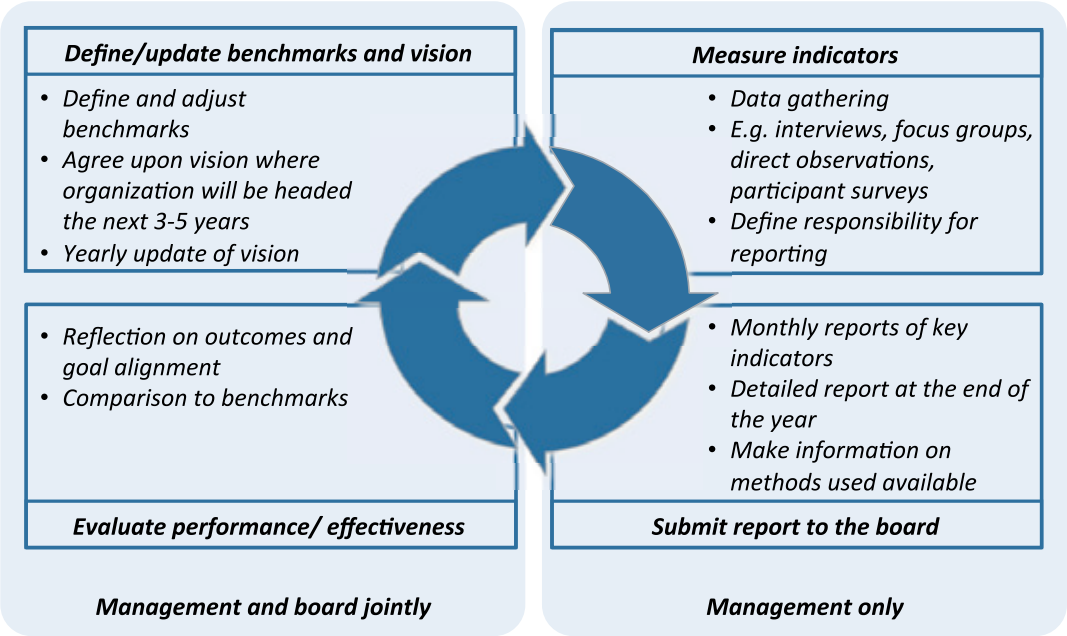
4.5 Example of impact value chain

Figure 9: Impact Value Chain; taken from Mair & Sharma, forthcoming; based on Clark et al., 2004



4.6 Reporting cycle

Figure 10: Reporting cycle; own illustration



4.7 Example of a board self-assessment questionnaire[4]

Corporate Fund
Non-profit Board Self-Assessment Questionnaire

(organization) (month/year)

This questionnaire will assist you and your colleagues in assessing your board's management of its role on behalf of the organization you serve. After everyone's responses are tallied, members will have the opportunity to discuss the outcomes and to decide on any steps that might strengthen the board's performance.

It is important that you not see this questionnaire as any kind of test, but rather as a helpful tool for increasing board effectiveness.
The questionnaire is divided into 12 sections dealing with important areas of non-profit board operations. For the statement in each section, you will be asked to choose from among the following responses:

1 = Strongly Agree with the statement.
2 = Agree with the statement.
3 = Disagree with the statement.
4 = Strongly Disagree with the statement.
DK = Don't Know (just don't have enough information).
NA = Not Applicable to your board or organization.

Please be forthright in your responses. Only straightforward answers can be of real help to your board's self-assessment.
Circle the response that most closely reflects your opinion on each of the statements in this questionnaire.

[4] Taken from: The Corporate Fund: http://www.nhnonprofits.org/boardselfassessment.cfm; we would like to thank Edward Tomey, the developer of the questionnaire, for his kind permission to include the questionnaire within the manual. The NH Center for Nonprofits oversees the online administration of the questionnaire.

Section 1: Board-Roles

	Agree		Disagree		Don't Know	Not Applicable
1. The roles and responsibilities of our board are clearly defined and separate from those of the staff.	1	2	3	4	DK	NA
2. Our board takes the primary responsibility for setting the organization's policies.	1	2	3	4	DK	NA
3. Board members seldom assume roles and responsibilities that belong to staff.	1	2	3	4	DK	NA
4. The board delegates to the organization's chief executive sufficient authority to lead the staff and carry out the organization's mission.	1	2	3	4	DK	NA
5. When a problem or conflict arises between board and staff, we move quickly and effectively to resolve it.	1	2	3	4	DK	NA

Section 2: Policy-Making Practices

1. If a new policy is needed for the board or the organization as a whole, the issue is clearly presented to and discussed by the board.	1	2	3	4	DK	NA
2. The full board approves all new organizational policies before they are implemented.	1	2	3	4	DK	NA
3. Policies exist for key areas such as finance, personnel, safety and ethics, and all functions unique to our organization's work.	1	2	3	4	DK	NA

	Agree		Disagree		Don't Know	Not Applicable
5. The board reviews policies at least annually, and updates them as needed.	1	2	3	4	DK	NA

Section 3: Planning Practices

1. Our organization's mission and purpose are clearly understood and accepted by our board.	1	2	3	4	DK	NA
2. The members of the board have reached consensus on a vision that indicates where the organization will be headed over the next 3-5 years.	1	2	3	4	DK	NA
3. The full board collaboratively reviews and updates the organization's strategic plan at least every two years.	1	2	3	4	DK	NA
4. Staff develops and carries out annual plans based on our board's approved strategic plan.	1	2	3	4	DK	NA
5. The board is well-briefed by the staff on annual plans developed by staff.	1	2	3	4	DK	NA

Section 4: Fiscal Management Practices

1. The organization's annual budget is fully discussed by the board prior to its approval.	1	2	3	4	DK	NA
2. The fiscal status of our organization is regularly reviewed and needed board actions are taken thoughtfully but quickly.	1	2	3	4	DK	NA
3. Board leadership takes steps to ensure that fiscal reports are thoroughly understood by board members.	1	2	3	4	DK	NA

	Agree		Disagree		Don't Know	Not Applicable
4. The annual report of our organization's independent auditors is reviewed and needed actions are taken in a timely way.	1	2	3	4	DK	NA
5. Board members are well aware of their legal responsibilities for the organization's fiscal management.	1	2	3	4	DK	NA

Section 5: Fund-Raising Practices

1. Our organization's fund-raising needs and strategies are understood by the board.	1	2	3	4	DK	NA
2. The board has a clear policy on the individual board member's responsibility to raise funds.	1	2	3	4	DK	NA
3. Board members play an active role in the organization's fund-raising efforts.	1	2	3	4	DK	NA
4. The board periodically engages in long-range fiscal planning to ensure an adequate flow of resources to the organization over time.	1	2	3	4	DK	NA
5. Capital fund-raising needs are reviewed regularly by our board and action is taken as necessary.	1	2	3	4	DK	NA

Section 6: Board Structure & Practices

1. Our board's structure allows us to get our work done well and in a timely way.	1	2	3	4	DK	NA
2. The board's standing committees streamline our work process and increase board effectiveness.	1	2	3	4	DK	NA

	Agree		Disagree		Don't Know	Not Applicable
3. Our board's size is about right.	1	2	3	4	DK	NA
4. Our member's terms on the board are about the right length.	1	2	3	4	DK	NA
5. We consciously select and prepare our board officers for their leadership responsibilities.	1	2	3	4	DK	NA
6. Board members have a working knowledge of the organization's by-laws.	1	2	3	4	DK	NA

Section 7: Board Committees

1. Task and standing committee assignments generally reflect the interests and expertise of individual board members.	1	2	3	4	DK	NA
2. I serve on at least one standing board committee.	1	2	3	4	DK	NA
3. Any standing committee I serve on completes its tasks in an effective and timely way.	1	2	3	4	DK	NA
4. Most board members actively participate in standing committee activities.	1	2	3	4	DK	NA
5. Any standing committee I serve on reports to the board at least quarterly.	1	2	3	4	DK	NA
6. Each standing committee establishes its goals and plans at the beginning of the fiscal year.	1	2	3	4	DK	NA

Section 8: Board Meetings

	Agree		Disagree		Don't Know	Not Applicable
1. Our board's meeting schedule has the right number and length of meetings.	1	2	3	4	DK	NA
2. The agendas of our board meetings and supporting written material are usually given out in advance of meetings	1	2	3	4	DK	NA
3. Board leaders and standing committee members contribute items to meeting agendas.	1	2	3	4	DK	NA
4. Board meetings are generally well-run and make good use of members' time.	1	2	3	4	DK	NA
5. Our board tends to brainstorm and identify creative approaches to problems.	1	2	3	4	DK	NA
6. Our board thoroughly examines the pros and cons of all major decisions.	1	2	3	4	DK	NA

Section 9: Board Membership & Orientation

1. The areas of expertise, skills and other factors we need to be an effective board for this organization are adequately represented among current board members.	1	2	3	4	DK	NA
2. Our board successfully identifies the expertise, skills and other contributions we need from potential new board members to maintain or increase our effectiveness.	1	2	3	4	DK	NA

	Agree		Disagree		Don't Know	Not Applicable
3. We actively recruit new board members based on identified needs.	1	2	3	4	DK	NA
4. When seeking members for the board, we use a wide variety of referral sources within the communities we serve.	1	2	3	4	DK	NA
5. Our board and staff inform new board members about responsibilities and important organizational information through a structural new member orientation programme.	1	2	3	4	DK	NA

Section 10: Board—Executive Relationship

1. Our board uses a structured and participative process to recruit and hire our organization's chief executive.	1	2	3	4	DK	NA
2. The board has approved a written job description that clearly spells out the chief executive's responsibilities and authority.	1	2	3	4	DK	NA
3. The chief executive's performance is formally assessed at least annually based on objectives established at the beginning of the fiscal year.	1	2	3	4	DK	NA
4. The chief executive receives ongoing feedback regarding job performance in addition to any formal assessments.	1	2	3	4	DK	NA
5. Board members provide the necessary support that allows the chief executive to carry out the role successfully.	1	2	3	4	DK	NA

4.8 Corporate governance guidelines and codes of best practice

Table 7: Governance guidelines and codes; own illustration

Country/Region	Code/Guideline	Main content	Mandatory for	Available at
Australia	Corporate Governance Principles and Recommendations	Structure and diversity of board; disclosure and risk management	Listed entities	http://www.asx.com.au/governance/corporate-governance.htm
Austria	Austrian Code of Corporate Governance	Transparency, disclosure, competencies and qualifications of board	Listed entities	http://www.corporate-governance.at/
Belgium	The 2009 Belgian Code on Corporate Governance	Governance structure; board efficiency and evaluation; committees	Listed entities	http://www.corporategovernance committee.be/en/2009_code/default.aspx orategovernance committee.be/en/2009_code/default.aspx
	Code Buysse: Corporate Governance for Non-listed Enterprises	Composition, function, appointment, evaluation and compensation of board	-	http://www.codebuysse.be/en/default.aspx
Brazil	Code of Best Practice of Corporate Governance	Mission, composition, background and assessment of board; relationship with related parties	-	http://www.ibgc.org.br/CodeBestPractices.aspx
Canada	Corporate Governance: Guide to Good Disclosure	Composition, independence, tasks and compensation of board	Specified disclosure requirements	http://www.tmx.com/en/listings/tsx_issuer_resources/corporate_governance.html
	Building on Strength: Improving Governance and Accountability in Canada's Voluntary Sector	Role, transparency, structure and succession of board	-	http://www.vsi-isbc.org/eng/products/reports.cfm
Denmark	Recommendations on Corporate Governance	Transparency, responsibilities, composition and remuneration of board	Listed entities	http://www.corporategovernance.dk/sw58113.asp
Europe	Green Paper on the EU Corporate Governance Framework	Composition, evaluation and remuneration of board; risk management	--	http://ec.europa.eu/internal_market/consultations/2011/corporate-governance-framework_en.htm
	Corporate Governance Guidance and Principles for Unlisted Companies in Europe	Composition, remuneration and efficiency of board; collaboration with management	-	http://www.ecoda.org/Publications.html
Finland	Finnish Corporate Governance Code 2010	Composition, appointment, charter and evaluation of board	Listed entities	http://www.cgfinland.fi/content/view/16/63/lang,en/
France	Recommendations on Corporate Governance	Principles, independence, organization and transparency of board	Listed entities	http://www.afg.asso.fr/index.php?option=com_content&view=article&id=98&Itemid=87&lang=en

Germany	German Corporate Governance Code	Cooperation with management; tasks, composition, compensation and transparency of board; reporting	Listed entities	http://www.corporate-governance-code.de/eng/kodex/index.html
Greece	SEV Corporate Governance Code for Listed Companies	Role, composition and evaluation of board; internal controls	Listed entities	http://www.sev.org.gr/online/index.aspx?mid=694&lang=en
Hungary	Corporate Governance Recommendations	Role, independence, remuneration and evaluation of board; risk management	-	http://www.bse.hutopmenu/issuerscorporategovernance/cgr.html?pagenum=2&query=corporate%20governance
India	Corporate Governance Voluntary Guidelines	Appointment, responsibilities, independence and remuneration of board	-	http://www.nfcgindia.org/home.html
International	ICGN: Global Corporate Governance Principles	Responsibilities, independence, appointment, composition and evaluation of board; risk management; remuneration	-	http://www.icgn.org/best-practice.php
	OECD Principles of Corporate Governance	Disclosure; transparency; responsibilities of board	-	http://www.oecd.org/document/49/0,3343,en_2649_34813_31530865_1_1_1_1,00.html
Italy	Corporate Governance Code	Role, composition, independence, committees, remuneration and appointment of board	-	http://www.borsaitaliana.it/borsaitaliana/regolamenti/corporategovernance/corporategovernance.en.htm
Japan	Principles of Corporate Governance for Listed Companies	Transparency; responsibility of board	Listed entities	http://www.tse.or.jp/english/rules/cg/
Luxembourg	The Ten Principles of Corporate Governance of the Luxembourg Stock Exchange	Duties, composition, independence, evaluation and remuneration of board	Listed entities	http://www.bourse.lu/application?_flowId=PageStatiqueFlow&content=services/CorporateGovernance.jsp
Norway	The Norwegian Code of Practice for Corporate Governance	Tasks and remuneration of board; risk management	Listed entities	http://www.nues.no/English/The_Norwegian_Code_of_Practice_for_Corporate_Governance/
Poland	Code of Best Practice for WSE Listed Companies	Transparency; remuneration; tasks of management and supervisory board	-	http://www.corp-gov.gpw.pl/assets/library/english/regulacje/bestpractices%2019_10_2011_en.pdf
Portugal	CMVM Corporate Governance Code	Management and supervisory board; general meetings and transparency	Listed entities	http://www.cmvm.pt/EN/Recomendacao/Recomendacoes/Documents/2010consol.Corporate%20Governance%20Recommendations.2010.bbmm.pdf
South Africa	King Code of Governance for South Africa	Responsible leadership; board responsibilities, composition and collaboration; ethical foundation; transparency; risk management	Listed entities	http://african.ipapercms.dk/IOD/KINGIII/kingiiicode/

Spain	Unified Good Governance Code of Listed companies	Shareholder assembly; bylaw restrictions; board of directors	Listed entities	http://www.cnmv.es/DocPortal/Publicaciones/CodigoGov/Codigo_unificado_Ing_04en.pdf
Sweden	Swedish Corporate Governance Code	Shareholder meetings; remuneration, tasks and composition of board	Listed entities	http://wwwcorporategovernanceboard.se/media/45322/svenskkodbolagsstyrn_2010_eng_korrigerad20110321.pdf
Switzerland	Swiss Code of Best Practice for Corporate Governance	Shareholders; function and composition of board; transparency	-	http://www.economiesuisse.ch/de/PDF%20Download%20Files/pospap_swiss-code_corp-govern_20080221_en.pdf
The Netherlands	Dutch Corporate Governance Code	Tasks, competencies and remuneration of management board; transparency; conflicts of interest; composition, tasks and independence of supervisory board; shareholder meetings	Listed entities, large corporations	http://www.commissiecorporategovernance.nl/page/downloads/DEC_2008_UK_Code_DEF__uk_.pdf
United Kingdom	The UK Corporate Governance Code	Leadership; effectiveness; accountability; remuneration and relation with shareholders	Listed entities	http://www.frc.org.uk/images/uploaded/documents/UK%20Corp%20Gov%20Code%20June%2020102.pdf
USA	NYSE Corporate Governance Rules	Independency, remuneration and tasks of directors; transparency	Listed entities	http://www.nyse.com/pdfs/finalcorpgovrules.pdf

4.9 Rules of procedure for boards[5]

Rules of Procedure for the

Advisory Board

of

[Name of Social Enterprise]

1. General

1.1 The Advisory Board of the Company shall perform its duties in accordance with applicable law, the Articles of Association of the Company, these rules of procedure ("Rules of Procedure") and the resolutions of the Shareholders' Meeting.

1.2 The Advisory Board shall cooperate closely with the other bodies of the Company, in particular with the Shareholders' Meeting and the Management Board.

1.3 The members of the Advisory Board are appointed and removed by the Shareholders' Meeting. The term of the members of the Advisory Board is 5 years (the "Term").

1.4 The members of the Advisory Board shall not receive any remuneration for their work. They shall be reimbursed by the Company for any reasonable expenses, which they incur in connection with their service as members of the Advisory Board.

2. Role of the Advisory Board

2.1 The Advisory Board advises the Management Board of the Company upon its request. It does not have the role of a supervisory board.

2.2 The Advisory Board authorizes (or refuses authorization for) any matters which require the consent of the Advisory Board according to the Rules of Procedure for the Management Board or for which the managing directors seek the approval of the Advisory Board.

[5] Based on Rules of Procedure for the Advisory Board of Dialogue Social Enterprise GmbH. We would like to thank Frank Thiäner from Pöllath and Partners for the kind provision of the contract.

2.3 The Advisory Board may also retroactively approve the implementation of any matters, which require the consent of the Advisory Board.

2.4 The Advisory Board decides in particular about the approval of the annual business plan, in particular the budget plan, which the Management Board prepares for the upcoming business year.

2.5 The Advisory Board shall also receive the monthly overview of the financial situation of the Company, which the Management Board prepares.

2.6 The approval of the Advisory Board is not required if the respective transaction is included in the adopted annual budget.

2.7 The Advisory Board may, if deemed appropriate, also grant its approval for certain matters in advance.

3. Convocation of the Advisory Board

3.1 The Chairman of the Advisory Board convenes the meetings of the Advisory Board. He determines the form of convocation (in writing, verbal, by telephone or fax) and determines the agenda of the Advisory Board. The agenda shall be communicated to each member of the Advisory Board together with the convocation notice.

3.2 There must be at least one week between the receipt of the convocation notice and the meeting of the Advisory Board. The day when the convocation notice is dispatched and the day of the board meeting shall not be taken into consideration for the calculation of the convocation period. The Chairman shall appoint a keeper of the minutes at the beginning of each meeting.

3.3 Each member of the Advisory Board and each shareholder shall be entitled to demand from the Chairman of the Advisory Board that he convenes the Advisory Board. The members of the Advisory Board and the shareholders shall give the purpose and the reasons for their request. If the Advisory Board is not convened within an appropriate time, the respective member or shareholder may convene the Advisory Board himself.

3.4 The Advisory Board shall come together 4 (four) times every year, if possible every 3 (three) months. At least one meeting shall be in person, the other meetings may be held via telephone conference or other means of communication.

3.5 Meetings of the Advisory Board may be held without fulfilment of the requirements as to form and notice for the convocation set forth in Sec. 3.1 and 3.2 if either all members of the Advisory Board participate and agree, or, if only some members participate, the other members have expressly waived their right to participate in the meeting of the Advisory Board.

3.6 The Advisory Board shall have a quorum if at least two-thirds of the members who are entitled to vote participate in the passing of resolutions.

3.7 Unless the Chairman decides otherwise, the meetings of the Advisory Board shall take place at the registered office of the Company.

4. Passing of Resolutions

4.1 The Advisory Board decides by passing resolutions. Resolutions shall be passed with a simple majority of all votes cast unless the Articles of Association, the Rules of Procedure for the Management Board or the Rules of Procedure for the Advisory Board determine otherwise. Each member has 1 (one) vote. In case of a deadlock, the vote of the Chairman (or, if he does not participate, the vote of his alternate) shall be decisive.

4.2 At the beginning of each meeting, the Chairman shall determine which members participate and if there is a quorum for the meeting.

4.3 Resolutions of the meeting shall be passed by individual vote. The Chairman shall determine:

- How many votes voted “yes”
- How many votes voted “no”
- How many votes abstained from voting.

4.4 The determinations pursuant to Section 4.2 and 4.3 shall be recorded in the minutes.

4.5 The Advisory Board may pass resolutions outside of board meetings, in particular in writing, by fax, e-mail or other means of communication, if all members of the Advisory Board participate and no member objects to the way the resolutions are passed. Resolutions, which are passed outside of board meetings shall be recorded by the Chairman and shall be sent to all members of the Advisory Board without delay.

5. Resolutions in Case of Emergency

In cases where a resolution of the Advisory Board cannot wait because this would otherwise lead to material disadvantages for the Company, the Chairman of the Advisory Board may take all actions and may issue all declarations, which he in his sole discretion deems necessary or appropriate. In this case, he has to inform the other members of the Advisory Board without delay and present the reasons for the urgency of his actions.

6. Chairman and Alternate Chairman of the Advisory Board

6.1 The Chairman shall be appointed by the Shareholders’ Meeting of the Company from among the members of the Advisory Board.

6.2 The Advisory Board elects from among its members and for its Term an alternate Chairman. The alternate Chairman takes over the role of the Chairman if the Chairman does not participate in a meeting of the Advisory Board.

6.3 The election may be amended at any time by resolution of the Advisory Board.

7. Minutes of the Board Meetings

7.1 In the minutes of the Advisory Board meetings shall be recorded the place and day of the meeting, the participants, the objects of the agenda, the resolutions of the Advisory Board and the determinations of the voting pursuant to Sec. 4.2 and 4.3. In minutes which concern resolutions which are passed outside of meetings, the day, the manner how the resolutions were passed, the participants, the resolutions of the Advisory Board and the determinations pursuant to Section 4.2 and 4.3 shall be recorded mutatis mutandis.

7.2 Objections against the correctness of the minutes shall be inadmissible unless they have been raised in writing vis-à-vis the Chairman before the beginning of the next meeting of the Advisory Board at the latest.

7.3 The Advisory Board determines by resolution with simple majority whether the objections are correct or not.

7.4 The minutes of the Advisory Board meetings and of the resolutions which are passed outside of meetings shall be kept in the files of the Chairman.

7.5 Each member of the Advisory Board shall be entitled to inspect the minutes and records of the Advisory Board.

8. Participation of Third Parties

8.1 Third parties may participate in meetings of the Advisory Board if the Advisory Board admits them by resolution with simple majority.

8.2 Third Parties which participate in meetings of the Advisory Board shall be bound by confidentiality obligations. Upon the request of the Chairman, the participation of a third party shall be made subject to the execution of a written confidentiality agreement.

9. Representation of Advisory Board Members

9.1 A member of the Advisory Board may appoint another member or a member of the legal, tax or business consultancy professions, which are bound by mandatory confidentiality obligations as his attorney, and he may use the support of such persons.

9.2 Each attorney has to prove his legitimacy by a written power of attorney or a public document.

10. Miscellaneous

10.1 As long as an Advisory Board has not been appointed, the Shareholders' Meeting shall take over the function of the Advisory Board.

Task Force Members of the Schwab Foundation Community

Andreas Heinecke, Dialogue Social Enterprise
Ann Cotton, Camfed International
Timothy Ma KamWah, Senior Citizen Home Safety Association
Victoria Kisyombe, Sero Lease and Finance (Selfina)
Vikram K. Akula, Social Entrepreneur
Shona McDonald, Shonaquip
Felipe Vergara, Lumni
Roberto Kikawa, ProjetoCies
Mel Young, Homeless World Cup
Marta Arango, CINDE
Sam Goldman, d.light
Sarah Mavrinac, aidha

We thank the entire Schwab community for their support by participating in our preliminary survey and by providing insights during interviews and task force calls. Your ideas and contributions have been tremendously valuable for establishing the manual.

Sources

The content is based on a survey of Schwab Fellows, interviews with social entrepreneurs and the following literature:

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The following pages provide further information and material on governance:
- http://www.charity-commission.gov.uk/
- http://www.boardsource.org/
- http://www.acevo.org.uk/

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WORLD ECONOMIC FORUM

COMMITTED TO IMPROVING THE STATE OF THE WORLD

World Economic Forum
91–93 route de la Capite
CH-1223 Cologny/Geneva
Switzerland

Tel.: +41 (0) 22 869 1212
Fax: +41 (0) 22 786 2744

contact@weforum.org
www.weforum.org