

DESTINATIONS INTERNATIONAL ASSOCIATION

2019 BOARD GOVERNANCE HANDBOOK

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Nonprofit Responsibilities

Serving as a nonprofit board member is one of the most challenging and rewarding of volunteer assignments. While appointment or election to a board is an honor, board members have important legal and fiduciary responsibilities that require a commitment of time, skill, and resources.

In addition, Destinations International is a membership organization made up in great part by other nonprofits. It is incumbent on both the Association and its supportive foundation, the Destinations International Foundation (“Foundation”), to set a standard about what is appropriate, what is an established best practice, and what is it that we have found works best so that others may learn through observation and participation in what we do.

LEGAL AND FIDUCIARY RESPONSIBILITIES

Under well-established principles of nonprofit corporation law, a board member must meet certain standards of conduct and attention in carrying out their responsibilities to the organization that they serve. State nonprofit corporation laws often have statutes that refer to some variation of these duties which determines whether a board member has met their fiduciary duty. These standards are usually described as the duty of care, the duty of loyalty and the duty of obedience.

- ◆ **Duty of Care.** The duty of care describes the level of competence that is expected of a board member and is commonly expressed as the duty of care that an ordinarily prudent person would exercise in a like position and under similar circumstances. This means that a board member owes the duty to exercise reasonable care when they make decisions as a steward of the organization.
- ◆ **Duty of Loyalty.** The duty of loyalty is a standard of faithfulness; a board member must give undivided allegiance when making decisions affecting the organization. This means that a board member can never use information obtained as a board member for personal gain and must act in the best interests of the organization.
- ◆ **Duty of Obedience.** The duty of obedience requires board members to be faithful to the organization's mission. A board member individually must carry out the mission of the organization and must not engage in illegal or unauthorized activities on behalf of the organization. This duty arises from the public's trust that the organization will manage donated funds to fulfill the organization's mission.

GOOD GOVERNANCE PRACTICES

The nonprofit boards best equipped to lead their organizations are self-aware, function in constructive partnership with their chief executives, and commit to continually improving their performance. The boards of the Association and the Foundation will aim to create good governance practices. Intentionally using good governance practices creates a framework that will result in the boards becoming a strategic asset for their respective organization.

The following are good governance practices for the Destinations International (“Association”) Board. The spirit of these principles will guide many of the actions by the board and are set forth in our bylaws, policies, and procedures. For purposes of clarity, they have been arranged in three categories:

1. Operational Practices. These are practices to operate or function successfully.
2. Excellence Practices. These are practices to move board towards excellence.
3. Legal & Compliance Practices. These are practices that address legal requirements and compliance.

OPERATIONAL PRACTICES

- A. Meeting Attendance. Every board member must prioritize attending all board meetings with absence from a meeting occurring only under exceptional circumstances. Meetings are the mechanism in which the board exercises its authority. Without attending meetings — and preparing for them conscientiously — a board member is not able to participate in educated and independent decision making. While we may accept limited participation via teleconference, such participation should not be considered a substitute for in-person attendance. Board service is a commitment. Attending meetings in-person must be a priority.
- B. Term Limits. Our board will have term limits. Regular turnover among board members encourages analysis of board composition, helps avoid stagnation, offers the opportunity to expand those people participating at the board level, and provides a respectful and efficient method for removing members. Term limits do not prevent valuable members from remaining in the service of the organization and serving in another capacity. However, our board does recognize that there is a potential loss of expertise and insight that can benefit the board and organization over time. To this extent, our board seeks to implement term limits in a manner that creates regular turnover while simultaneously preserving some institutional memory and insight.

We will draft our bylaws so that the annual slate of candidates to fill board positions will contain no more than one-third who are currently serving on the board in an initial non- consecutive term. These candidates will be identified by a scoring sheet developed from a matrix for board composition adopted by the committee charged with board nominations. The remaining two-thirds of the slate will be limited to those who are new to the current board having not been on the board the previous year. Officers are exempt from the term limit provision as long as they serve in that capacity.

- C. Strategic Board Recruitment. Our board must be strategic about member recruitment and define an ideal composition based on organizational priorities at any given moment. A matrix communicating board composition facilitates the board's strategic recruitment efforts. By analyzing the present composition of the board, the governance committees are able to best determine what qualities, characteristics, and perspectives are already present on the board and identify where gaps exist.
- D. Strategic Planning. Our board must play a substantive role with management in developing, approving, and supporting organizational strategy. One of a board's primary responsibilities is to set the direction for their organization. Strategic planning serves as the tool to assess the progress of such direction. The entire board needs to actively participate in and own the results of its strategic planning.
- E. Budget Approval. Our board must approve their annual budget. Staff is responsible for developing the annual budget and, in conjunction with the Destinations International Finance

Committee and the Secretary/Treasurer of the organization, presenting it to their board for approval. Acting as the fiduciary for the organization, a board must ensure that the budget reflects the overall strategic direction and the long-term fiscal health of an organization.

- F. Chief Executive Job Description. A written description for this position will be developed with the Destinations International chief executive, for the Destinations International chief executive that is either approved directly by the Destinations International board or by their designee and then shared with the Destinations International Board. The chief executive remains accountable for his or her performance due to well defined goals and expectations that are mutually agreed upon.
- G. Chief Executive Evaluation. The chief executive's performance will be reviewed annually, and a written evaluation provided to the chief executive will include input from the full board. A formal evaluation, based on well-defined and mutually agreed upon expectations, benefits and protects both the chief executive and the board. While the board chair or a designated committee may lead the evaluation, the full board must participate by being given the opportunity to provide feedback and comment on the final evaluation. Allocation of a portion of the Chief executive compensation should be based on certain agreed upon factors in the evaluation. The board should periodically consider feedback from those working closely with the chief executive.
- H. Audit. The organization should undertake an audit annually. While it is a good practice to have a committee of a board for audit purposes, it is ultimately our board's role to approve the selection of an auditor (which may be recommended by a committee) and meet with such auditor(s) in an executive session to discuss the results. Since the Association and Foundation are engaged in multiple and major financial transactions, our board must rely on an independent auditor's findings that the financial statements fairly present the financial position of the respective organization.

EXCELLENCE PRACTICES

- A. Consent Agendas. When possible, our board should include consent agendas in the meeting agendas. Consent agendas promote good time management in meetings by removing unnecessary administrative details, repetitive discussions, and routine tasks to allow the board to focus on issues of real importance to the organization and its future. For consent agendas to be successful, materials for review must be written and sent to the board prior to the meeting, and board members must commit to reading the materials before approving the consent agenda.
- B. Executive Sessions. Our board will have regularly scheduled executive sessions. Executive sessions provide a venue for handling issues that are best discussed in private, fostering robust discourse, and strengthening trust and communication. Distinguished by their purpose and participants, executive sessions should serve three core functions: (1) assure confidentiality, (2) create a mechanism for board independence and oversight, and (3) enhance relationships among board members and with the chief executive.
- C. Board Diversity and Inclusion. Our board will be intentional in its recruitment and engagement of diverse board members in order to foster a culture of inclusivity. To value diversity is to respect and appreciate race; religion; skin color; gender and gender identity; ethnicity; nationality; sexual orientation; physical, mental, and developmental abilities; age; and

socioeconomic status. Furthermore, we value the diversity of our member destinations in size, market emphasis, legal status and geographic location. Finally, we value the diversity of our industry partners in terms of their chosen fields of business or expertise. We believe that our board should commit to diversity and inclusion by establishing written policies and practices, subject to regular evaluation, that address strategic and intentional recruitment, engagement, and equal access to board leadership opportunities.

- D. **Board Evaluation.** Our board will conduct a comprehensive self-assessment regularly to evaluate performance. Through structured self-reflection board members can judge their own collective performance and understand the extent of their individual responsibilities. Our target will be to conduct assessments every two years and implement identified improvements when assessments are not conducted.
- E. **Board Orientation.** Our board will have a formalized process for new member orientation. The process should be documented and streamlined to ensure all board members receive relevant and consistent information on their governance responsibilities, on the respective organization, and on the organization's expectations.
- F. **Bylaws Review.** Our board will review the bylaws regularly and ensure timely amendments when necessary. Bylaws formalize an organization's structure and practices. Priorities of the board and the organization evolve over time, as do the external circumstances in which the organization functions. It is necessary to review the clauses periodically to verify their continued appropriateness and to assess necessary amendments.
- G. **Chief Executive Serving on the Board.** The chief executive will be an ex officio, non-voting member of the board. The chief executive's input in a board meeting is instrumental and invaluable for informed decision making. However, to avoid actual or perceived conflicts of interest, our chief executive should be a non-voting member.
- H. **Board Job Description.** Our board will have written job descriptions outlining the responsibilities of the full board, individual board members and officers. Board service comes with expectations and obligations. A written job description defines the collective governance role of the board and a board member's responsibilities.
- I. **Managing Conflicts of Interest.** Our board will adopt a conflict of interest policy that defines what a conflict of interest is and how it is managed. All board members and senior staff should sign an annual conflict of interest statement, disclose all known potential conflicts, and recuse themselves from participating in discussions and voting when conflicts do arise. Each meeting of the board or its standing or authorized committees should begin with a request to disclose any potential conflict(s) of interest. Board members must adhere to a legal "duty of loyalty," making decisions based on the best interests of an organization. By actively managing conflicts of interest — real or perceived — the board is better able to remain independent and unbiased in decision making.
- J. **Giving.** Every board member (either personally or through their member organization or company) should make a meaningful contribution, according to their means (while not conflicting with any legal stipulations), above and beyond the normal annual membership or partnership dues. By making a meaningful contribution, either to the Association or the Foundation, each board member demonstrates their commitment and trust in the Association and Foundation which enables them to function as an advocate and raise additional funds by

inspiring other donors.

- K. **Board Retreat.** Our board will include periodic retreats as needed in their meeting schedule and be attached to the strategic planning process and the development of long-term goals. Retreats allow a board to focus on large and complicated issues that cannot be handled adequately in a regular board meeting. It is a chance to step back and to reflect on its own responsibilities and practices or discuss the long-term objectives of the organization and strengthen the interpersonal dynamics among board members.
- L. **Board Size.** Our board will determine their optimal size based on their needs. The primary guide for determining board size is the board's function, which may change over time. Numerous factors influence the composition and thus the size of a board: board responsibilities, committee structures, legal requirements, phase in the organizational life cycle, needs for diversity, and maintaining a manageable group.
- M. **Committees.** The board standing committee structure should be strategic and complemented by the use of task forces, event committees or advisory councils. Only ongoing board activities and authorized credentialing boards warrant a standing committee. Other activities are best addressed by time-limited task forces, reoccurring event committees, and program focused advisory councils. These are also excellent opportunities to continue the active participation of former board members and involve new ones.
- N. **Executive Committee.** The executive committee of each of the board should have their purpose and authority defined in the respective bylaws. If an executive committee is given the power to act on behalf of the board in any area, the bylaws need to communicate such power and define the limits of such authority and define the reporting requirements of any actions. To ensure that the respective full board remains in control and informed, significant decisions made by an executive committee should always be reviewed at the respective board meeting immediately following the executive committee meeting.
- O. **Governance Committee.** Our board will form a governance committee as a standing committee. A board should ensure that board recruitment is a continuous and deliberate activity of the full board. We believe that a separate governance committee is the best structure to take the lead and responsibility for board recruitment, ongoing board development, leadership development, board and board member assessment, board education, and for ensuring that the board is equipped with proper guidelines and structure to do its work. In addition, the committee will review the bylaws, board policies and documents regularly and recommend timely amendments or replacements when necessary.
- P. **Audit Committee.** Our board will have a separate and distinct audit committee. This committee will oversee the external audit process, the financial reporting process (in partnership with the finance committee), and pay attention to risk assessment and risk management, including internal controls of the organization.

Audit committee members should have expertise in accounting and financial matters. We will fashion our bylaws to recruit committee members from the financial disciplines within our member and partner organizations. There should be a separation of duties between the audit committee and the finance committee and they should not share members, if possible. This underscores the organization's seriousness and commitment to an independent audit and board oversight of finances.

LEGAL & COMPLIANCE PRACTICES

- A. Meeting Frequency. Our board will hold an annual meeting, as required by law, and hold meetings at additional time(s) throughout the year. While the work of committees, task forces and advisory councils can help with the workload and relieve some of the geographical constraints, our board must meet often enough to ensure our fiduciary responsibilities without compromising efficiency.
- B. Executive Compensation. The Destinations International board must formalize a process for setting appropriate compensation for the chief executive and the principles determining their compensation package. The board needs to establish well-defined guidelines on how to determine appropriate compensation for the organization's chief executive.

Destinations International will follow the IRS's safe harbor measures and rely on comparative data, have the compensation decision determined by independent board members, and record the decision-making process. The Foundation board should be engaged in reviewing the principles behind the compensation package as it relates to the operation and strategic direction of the Foundation. The full Destinations International board should approve the process and the principles behind any compensation package.

- C. Review of Documents Required by Government(s). The full board should be given the opportunity to promptly review any legal documents required to be filed in the jurisdiction where the organization was incorporated and the organization's principal place of business. These forms are some of the most widely viewed public documents concerning the organizations, their finances, activities, and governance practices. It is important that board members are familiar with their content and that such documents accurately present the respective organizations to their constituents, donors, media and public generally.
- D. Document Destruction and Retention. The board must ensure that the organization maintain important documents concerning its operation and history. The organizations should have a policy for document destruction and retention that is regularly reviewed to ensure that the both the needs of the organization and any relevant laws are understood and complied with.
- E. Whistleblower Process. The board will ensure that no employee is punished or discriminated against because he or she reports improper conduct. In many locations, laws state what must happen if alleged improper conduct is reported. Both organizations need to have a formal, written process to deal with complaints and prevent retaliation. If under investigation, an organization is responsible for showing that it follows a systemized process to address whistleblower cases.

Expectations Of A Board Member

As stated, serving as a nonprofit board member is both a challenging and rewarding volunteer opportunity. While appointment or election to a board is an honor, board members have important legal and fiduciary responsibilities that require a commitment of time, skill, and resources. What follows is the expectations, or job description, of a board member.

Please note that there are expectations driven by the legal status of the Association based on the laws and regulations of the state (Michigan) and country (United States) in which the organization is based. The Association, as a section 501(c)(6) organization under the United States Internal Revenue Code ("Code"), is considered by the United States government to be a membership-based trade organization to promote and advocate for an industry sector and provide services, education and unique benefits to its members.

EXPECTATIONS OF A BOARD OF DIRECTORS MEMBER

The mission of the Association is to empower the members of the Association so that their destinations excel. The Association will seek to inform, connect, inspire, and educate its members to drive destination economic impact, job creation, community sustainability, and quality of life through travel. The Association, through the core attributes of community, advocacy, research, and education, will not only disseminate best practices, but more importantly establish next practices for destination organizations globally.

THE BOARD AS A WHOLE

As the highest leadership body of the organization and to satisfy the legal and fiduciary responsibilities, the Destinations International Board of Directors is responsible for the following:

- A. Determine Association mission and purpose. It is the board's responsibility to create, review, and/or approve a statement of mission and purpose that articulates the goals, means, and primary constituents served by the organization.
- B. Select the chief executive. The Destinations International Board must reach consensus on the chief executive's responsibilities and undertake a careful search to find the most qualified individual for the position.
- C. Support and evaluate the chief executive. The board should work to ensure that the chief executive has the moral and professional support he or she needs to further the goals of the organization.
- D. Ensure effective planning. The board must actively participate in an overall planning process and assist in implementing and monitoring the plan's goals.
- E. Monitor, and strengthen programs and services. The board's responsibility is to determine which programs are consistent with the organization's mission and its member's needs, as well as monitor their effectiveness.
- F. Ensure adequate financial resources. One of the board's foremost responsibilities is to secure adequate resources for their organization to fulfill the mission.

- G. Protect assets and provide proper financial oversight. The board must assist in developing the annual budget and ensuring that proper financial controls are in place.
- H. Build a competent board. The board has a responsibility to articulate prerequisites for candidates, orient new members, and periodically and comprehensively evaluate their own performance.
- I. Ensure legal and ethical integrity. The board is ultimately responsible for adherence to legal standards and ethical norms.
- J. Enhance the organization's public standing. The board should clearly articulate the organization's mission, accomplishments, and goals to the public and garner support from the international destination community.

INDIVIDUAL BOARD OF DIRECTORS MEMBERS

Each individual board member is expected to:

- A. Know the organization's mission, policies, programs, and needs.
- B. Faithfully read and understand the organization's financial statements.
- C. Serve as active advocates and ambassadors for the organization and fully engage in identifying and securing the financial resources and partnerships necessary for Destinations International to advance its mission.
- D. Leverage connections, networks, and resources to develop collective action to fully achieve Destinations International's mission.
- E. Give meaningful financial support to the Association and Foundation. This represents a different amount depending on a member's ability, resources and legal standing.
- F. Help identify personal connections that can benefit the organization's fundraising and reputational standing, and help influence public policy.
- G. Prepare for, attend, and conscientiously participate in board meetings.
- H. Participate fully in one or more standing committees, special committees, subcommittees, or task forces.
- I. Follow the organization's bylaws, policies, and board resolutions.
- J. Sign an annual conflict-of-interest disclosure and update it during the year if necessary, as well as disclose potential conflicts before meetings and actual conflicts during meetings.
- K. Maintain confidentiality about all internal matters of Destinations International and Destinations International Foundation.
- L. Attend Destinations International Foundation special events such as the annual Spirit of Hospitality event and/or the events held in conjunction with the Destinations International's Annual Convention.

- M. Attend and support major Destinations International special events throughout the year including the Annual Convention and one or more of the summits.

