



FSC Governance Review Process

Final Proposals

October 3, 2008

Based on consultative process held during 2007-2008

*I am working to make sure we don't only protect the environment,
we also improve governance.*

-Wangari Maathai

Summary

This document presents final Board proposals for changes to the FSC governance system in four major areas regarding: the role of national initiatives, the role of FSC members, the role of the FSC Board, and other institutional decision making structures. These proposals are the culmination of an extensive review and consultation process and represent the best judgment of the Board of Directors. The FSC membership is of course the highest decision making body within the FSC and has the role of accepting or changing these proposals via the motions process at the upcoming General Assembly in Cape Town, South Africa in November, 2008. The Board greatly appreciates the time and effort many people in the FSC community took to help develop these proposals and to make suggestions and comments. Some of these proposals can be implemented right away, while others will need to evolve as the FSC system grows and establishes a stronger financial platform. Two background documents can be referred to on the governance review process and stakeholder consultation: the February, 2008 paper entitled "Options for FSC's Future", and the Summary of Responses from the July 2008 membership survey on governance. These documents can be found at www.fsc.org.



**FSC Governance Review
Summary of Major Proposals**

1. National Initiatives

- * Establish five year contracts that outline roles and responsibilities between FSC-IC and individual NIs.
- * Create regional networks of NIs under which a Regional Council of NI delegates meets at least once a year to set regional priorities
- * Increase level of financial support to individual NIs and regional priorities as revenues at the international level increase.
- * Determine appropriate geographic regions for Regional Councils.

2. Membership

- * Create two categories of FSC Members and FSC Supporters.
- * Develop an integrated membership services program between FSC-IC andw NIs.
- * Adjust quorum rules to ensure better balance between individual and organizational members.

3. Board of Directors & Senior Staff

- * Board becomes more strategic and less operational by re-aligning committee structure and Board operations
- * Provide for non-voting Technical Advisors, and for one non-voting delegate representing NIs to the Board
- * Create a Senior Executive Group made up of the Directors of each FSC business unit reporting to FSC – AC Director (renamed as Director General)

4. Disputes & Decision-making

- * Create an independent Disputes Resolution Committee
- * Disband the Board-managed disputes committee
- * Streamline complaints procedures, and produce annual report of compliance actions

I. Introduction

The FSC is in a period of strong growth and unprecedented demand for services as it enters its fourteenth year. 2008 will see the convening of FSC's fifth General Assembly in Cape Town, South Africa in November. As FSC has grown and become more widely recognized as the foremost brand for sustainable wood and paper products, so has the need for changes in FSC's governance structure. Such



changes can support efficiency and innovation in the delivery of FSC for certificate holders and stakeholders alike.

One of FSC's unique assets in the global marketplace is its Governance System that was created at the 1993 Founding Assembly. This system, while occasionally modified by FSC members in successive General Assemblies, has remained largely intact since the FSC's inception. The early effort to instill transparency, balance, and democracy in the governance system has provided enormous legitimacy for the FSC in the marketplace and with stakeholders. Yet a variety of growing pains have emerged in the last several years, leading members of the 2005 General Assembly to instruct the FSC Board and Staff to conduct a thorough review of FSC's strategic direction, financial platform, and governance systems. In particular, Motion 51 mandated a thorough review, and revisions as needed, to FSC's governance system.

II. The Process

The FSC governance review process began in earnest in 2007 following completion and adoption of the FSC Global Strategy by the Board of Directors. The Strategy in many respects sets the framework for changes to the governance system that FSC needs to be effective over the long term. In particular, the Strategy calls for FSC to become more relevant in key forest regions of the world, to invest more heavily in its network of global stakeholders, to become more service oriented to the market and to FSC members, and to strengthen FSC's role as a transparent and democratic organization within the global community. An effective governance system is critical to achieving the five major goals in the Global Strategy. FSC stakeholders are strongly encouraged to view the proposed changes to the governance system described here alongside the major goals contained in the Global Strategy, since alignment between the two is essential.

The governance review process consists of three distinct phases. The **first phase** could be described as "informal"; it involved several stakeholder meetings and the synthesis of information from a variety of sources. Sources of information the Board relied on during the first informal consultation phase included:

- Inputs from FSC-IC senior staff
- Inputs from Accountability, an organizational development consulting firm
- Inputs from groups of NI leaders and stakeholders which convened in May 2007 in Lima, Peru and key stakeholders that convened in October 2007 in Europe.
- Previous research and analysis on FSC governance, such as the NI Task Force report



- Individual comments and advice received by long time members and leaders within the FSC system
- “Holding the Line” a Greenpeace report on controversial FSC certificates
- Interviews and meetings with NI leaders

The **second phase** consisted of a more formal review process. This began in late 2007 with the formation of a Governance Subcommittee of the Board charged with completing the process and bringing forward specific proposals to the full Board and membership. After reviewing the information developed in the first phase, and after several internal meetings, the Subcommittee released a white paper in February, 2008 entitled “Options for FSC’s Future.” This paper was widely circulated, however, its primary audience was FSC members and leaders who indicated a strong interest in the governance process and who had actively participated in the first phase consultations. Feedback from this process led to the development of an FSC-wide membership survey that was conducted during June-July of 2008. Over 100 responses were received along with many additional comments. Feedback from this survey has helped shape the final proposals here.

The **third phase** will begin at the General Assembly (GA) where the membership will be asked to approve and as appropriate amend these proposals, and where the task of implementation will start. Consistent with the four major categories of proposals described in this document, the Board expects to bring forward four “statutory” motions for consideration at the GA. The Board recognizes there may well be alternative or competing proposals offered at the GA which is, of course, the right of any FSC member. However, the Board also hopes that any such alternatives can be discussed with the Board and senior staff before they are brought to the floor of the General Assembly in order to provide for a more efficient process.

The Board also recognizes that the FSC is in a period of important and positive change that affects the FSC governance system. This arises from several factors including: the growing strength of the FSC brand in the market, the adoption of a new global strategy, recent senior leadership transitions, the role of forests in combating climate change, and the development of a new trademark and licensing program. As a result, the Board is sensitive to putting forward governance proposals that are pragmatic; proposals which respond to the real needs and “friction points” of the organization and which retain the fundamental strengths of FSC’s current governance structure.

III. Guiding Principles

Since the adoption of Motion 51, a number of chamber-specific meetings, workshops, and papers have been distributed on topics related to the governance system. In some cases, issues that have been



characterized as problems of governance have actually been problems of management, or issues regarding the implementation of existing policies. In other cases the implementation of policy and standards has been prevented by ambiguous decision rights or the lack of good governance structures. Clarifying what governance entails - and does not entail - is an important first step to updating the existing system so that it can perform better. The box below lists the major guiding principles that the FSC Board sees as a foundation to any changes in the FSC governance system.

Guiding BOD principles behind changes to FSC Governance

FSC has many desirable governance systems in place already which give it credibility (*multi-chamber, participatory, transparent, and member-directed; this is part of FSC's identity.*)

The governance structure should support and reinforce FSC's mission and strategic goals (*it should help us achieve the objectives and success indicators in the FSC Global Strategy*)

Good governance is not the same as good management (*good governance systems, however, enable better management*)

Governance clarifies who gets to decide what (*it confers decision rights to key parts of the FSC system*)

Governance systems should match the scale of FSC (*The FSC is still a relatively small organization; our governance should enable growth while not being unduly cumbersome.*)

Balance is needed between centralized and de-centralized decisions (*Local knowledge can often solve the problem at hand, but a broader perspective is required on many issues to maintain overall system integrity and consistency*)

IV. Proposals

A. FSC National Initiatives and the Role of FSC's Decentralized networks

1. The FSC should have a formal contract with each duly constituted National Initiative renewable on a five year basis

- a. Contracts will describe baseline roles and responsibilities common to all NI contracts, including the responsibilities of FSC-IC to NIs



- i. The FSC-IC will develop criteria for baseline funding support to be provided for each formally adopted NI with a duly constituted contract with FSC-IC
- b. Contracts may also describe more specific roles and services based on mutual agreement of needs and capacity in a given country/region
- c. NIs which do not have contracts with the FSC-IC will not be recognized by the FSC
- d. Each NI will become part of a regional network.
- e. NI's are recognized to be independent, not for profit organizations whose relationship to FSC is defined by a 5 year contract.

2. Regional networks of FSC are formed and represented by Regional Councils for the purposes of identifying regional priorities, including joint planning and budgeting with FSC-IC

- a. Regional Networks will have one formal delegate from each National Initiative within the region; these individuals shall form the Regional Council
- b. Regional Councils shall also include one FSC-IC designated staff person
- c. Regional Councils shall meet no less than once a year at a place and time determined by mutual consent of the NI delegates to the Council.
- d. The FSC-IC shall provide travel and logistical support for each annual meeting of the Regional Council
- e. Along with general information sharing, Regional Councils will identify regional priorities and funding needs for submission to the FSC-IC.
- f. Beyond agreed-to baseline levels of support, it is expected that requests for additional funding support from Regional Councils to the FSC-IC will be considered against the Goals and Success Indicators contained in FSC's Global Strategy.
- g. Each annual meeting of the Regional Council will be attended by a senior FSC-IC staff person to allow for collaboration and information sharing.
- h. FSC Board members are encouraged to attend Regional Council meetings within their region, but do not have any formal decision making role within the Councils

3. Eight (8) Regional Networks are created

- a. Starting in 2009, and for fiscal year 2010, eight regions will be formed in consultation with National Initiatives. More regions may be added or larger regions subdivided in the future as needed.



Examples of potential Regional Networks

- South America region (Colombia, Venezuela, Ecuador, Brazil and every country south)
- Central America region (Mexico, Honduras, Costa Rica, etc.)
- North America region (Canada and USA)
- European region (France, Germany, Spain, east to Poland, Bulgaria, Lithuania, etc)
- Baltic and Boreal region (Nordic states and Russia)
- Asia region (China, Japan, Vietnam, Thailand, India)
- Oceania region (Indonesia, Philippines, South Pacific islands, PNG, Australia, New Zealand)
- Africa (all countries as appropriate)

Intended outcomes of these proposals (above):

- Confer specific roles and responsibilities to NIs via a 5 year contract
- Confer specific roles and expectations of FSC-IC towards NIs
- Allows for relationship between FSC-IC and NI to be *customized* based on NI capacity and priorities, and FSC's overall strategic needs
- Provide for strategic dialogue across regions of common interest via annual or semi-annual planning and priority-setting meetings of the Regional Councils.
- Requires the FSC Board of Directors and senior staff to review and incorporate regionally determined priorities and needs in annual budget decisions.
- Regional Networks can form the basis for existing and potential FSC regional offices.

B. Membership & Supporters of FSC

1. Create two (2) categories of FSC members: Voting Members and Supporting Members

- a. Voting members shall have the rights of existing FSC members in terms of formal participation in all elections, the right to prepare and submit motions to the GA, the right to assign proxy votes, the right to bring formal complaints and disputes, and other benefits as determined by the membership.
- b. Voting members shall apply for membership via the existing application and review process



- c. Supporting members are those individuals or organizational members who do not wish, or are legally prevented, from joining the FSC as a voting member.
- d. The benefits of supporting members are limited to receiving news and information about the FSC, receiving discounts for FSC sponsored events and meetings, and other benefits as determined by the FSC Board
- e. Supporting members can join FSC without a formal application through the simple on-line payment of dues and provision of contact information
- f. The membership fee structure shall be revised to reflect a lower fee for Supporting members
- g. The revised fee schedule will provide for a waiver or reduction of fees based on ability to pay or economic hardship. No interested person or organization will be refused FSC membership in either category for economic reasons if it is sincerely desired
- h. If a waiver of fees is sought based on ability to pay or economic hardship, the applicant shall fill out a standard application requesting a waiver that will be kept strictly confidential by the FSC Membership Committee

2. Create one electronic database platform to cover all membership categories in the FSC system

- a. Starting in fiscal year 2010, the FSC-IC will provide membership database services to all categories of members and National Initiatives
- b. The FSC-IC shall provide a password protected system for NI staff to access information on all FSC voting members, supporting members, and certificate holders operating with the country or jurisdiction of the respective NI.
- c. NIs with existing and separate membership programs may prefer to *retain* a membership program at the NI level, or may be required to do so because due to legality issues for country-level membership organizations
- d. As part of developing the IC-NI 5 year contract, the IC and NI will agree to a dual or joint membership approach, a dual or jointly shared revenue approach, or phase-in period.
- e. One shared revenue options is a combined membership fee that covers NI services and regular FSC membership dues
- f. A second option is shared membership fee that “splits” the existing fee between the IC and NI
- g. A third option is a phased approach that transfers membership revenues to IC as levels of baseline NI support from IC increase.



3. Change requirements for quorum to align them with current decision rules that give organization members 90% weight and individual members 10% weight

- a. Correct the current imbalance that exists between the quorums needed to take a decision and the actual decision making since individual members and organizational members have the same weight for the establishment of quorum but have different weights for decision making.
- b. Substantial future growth in individual members (which is good) could also lead to the prevention of decision making by lack of quorum, as more and more individual members will be necessary for this.
- c. Most of the recent growth in FSC membership has been in individual members, but they frequently do not have the wherewithal or interest to participate in all formal FSC elections or decisions.

Intended outcomes of these proposals:

- The importance and role of Voting Members within the FSC system is retained.
- The creation of two membership categories serves to increase the number of people and organizations that are connected in some way to the FSC, especially those who may be prevented from becoming formal FSC members (e.g. government agencies, academic institutions, etc).
- The ease and lower cost of becoming an FSC Supporter will widen FSC's global reach and serve as a "stepping stone" for many towards becoming a formal voting member.
- For "sleeping" and inactive FSC members that may drop out of the system altogether, an FSC Supporting membership can provide a more appropriate relationship, and keep them in the FSC community.
- An integrated database of members and supporters allows NIs to better understand the status of all members within their region, and lowers their administrative costs in maintaining membership files.
- NIs are not threatened by loss of revenue by moving to a shared membership database
- Align quorum rules with the weighting that is currently assigned to actual voting between individual and organizational members



C. The FSC Board of Directors & relationship to FSC Executive staff

1. Change elements of the Board to reflect FSC's Growth and need for more strategic direction

- a. Retain the current elected Board size of nine (9): three members from each chamber and alternating between northern and southern hemispheres per the existing system serving no more than two consecutive three year terms
- b. NIs shall nominate by consensus one non-voting delegate to serve on the Board for a period of one year. This position will alternate between north and south delegates
- c. The FSC Board may appoint, as needed, Technical Advisors, or past Board chairs to serve in a non-voting, ex officio role. The number of Technical Advisors may not exceed three people.
- d. The total Board size including: elected Board members, NI delegate, non-voting Technical Advisors, and the past Board Chair may not exceed 14) members
- e. Starting in Fiscal Year 2009, the Board of Directors shall have only the following standing committees
 - i. Finance
 - ii. Nominations
 - iii. Executive

Other existing Board committees shall cease to exist as of December 31, 2008.

2. A Senior Executive Group is created and represented by the Director of FSC AC to the FSC Board of Directors

- a. The Executive Director of each of FSC's core business units, (FSC-IC, FSC Global Development, and Accreditation Services International) shall meet as the Senior Executive Group under the Director of FSC AC
- b. The Senior Executive Group shall meet at least once monthly. Minutes of these meetings shall be prepared and available to the Board upon request
- c. The Director of FSC AC shall have primary responsibility for representing the work of the Senior Executive Group to the FSC Board, and shall call on the Executive Directors as necessary to work with and update the Board on the performance of each business unit.



Intended outcomes of these proposals

- Retains the role of elected Board members with equal weighting across each chamber
- Retiring the Board committees on standards, accreditation, pesticides and other technical matters should enable the Board to become more strategic
- Representation by NI delegate will bring an important voice from critical parts of the FSC system into Board deliberations
- FSC's three business units are coordinated and overseen by the Director of FSC AC who serves in a Chief Executive Officer level position accountable to the Board

D. Dispute Resolution

1. **Create an independent four (4) person Disputes Resolution Committee (DRC) whose purposes are:**
 - a. To act as an appellate body of "last resort" in hearing formal complaints and disputes from decisions taken by each of FSC's three business units
 - b. To review and recommend as appropriate changes to FSC disputes and complaint procedures
 - c. To recommend to the FSC Board final decisions on formal disputes
 - d. To annually report to the FSC membership on all formal dispute resolution actions taken in the previous year.
 - e. To provide equal chamber representation
 - f. One (1) person from each chamber shall be appointed by the FSC Board upon advice from the respective chambers.
 - g. Members of the DRC shall serve three-year terms, renewable for one term

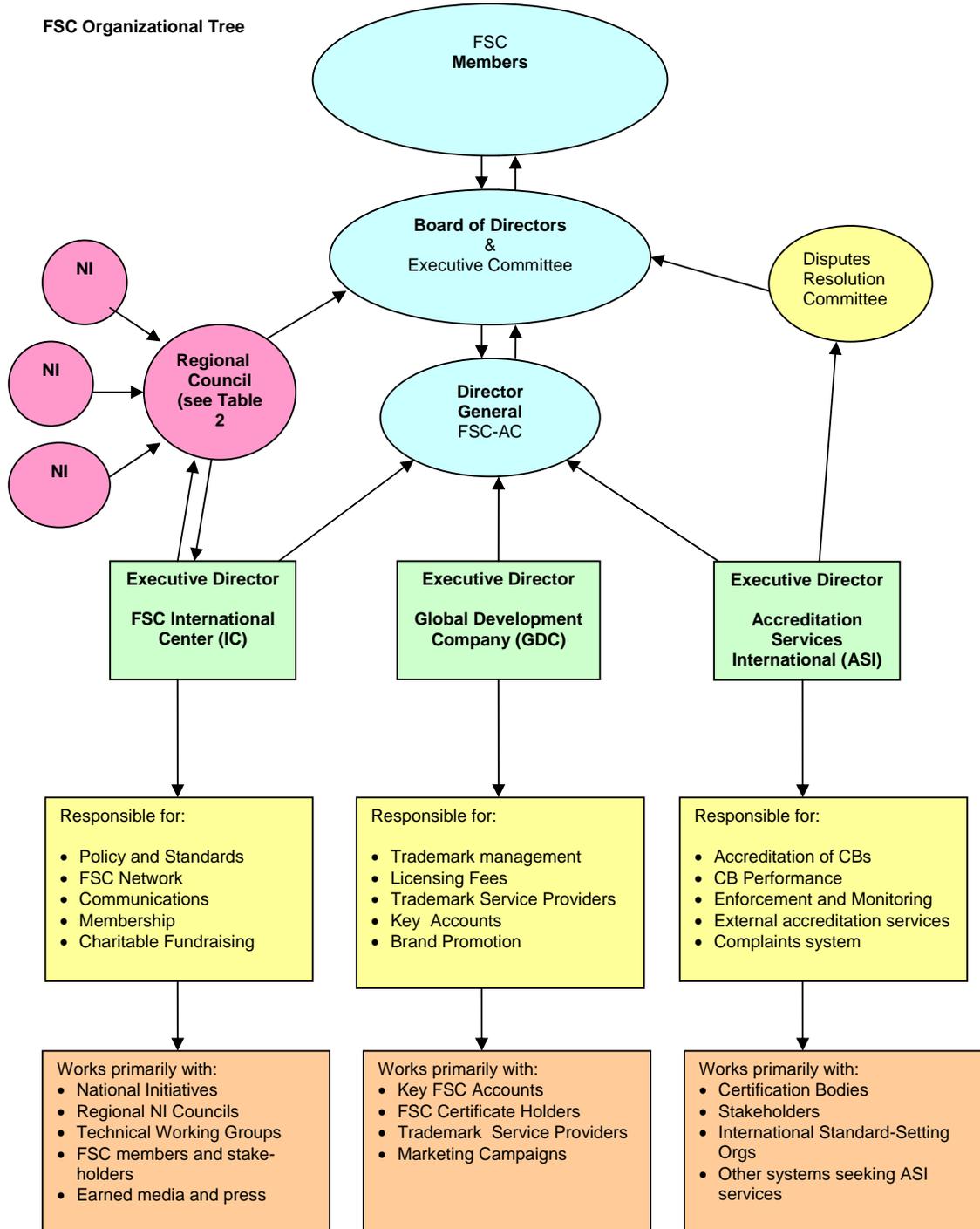
Intended outcomes of these proposals

- The DRC would be the highest appellate body of the FSC in resolving formal disputes and complaints that could not be resolved at a more local level
- Establishing the DRC gets the Board out of the role of resolving disputes, and empowers an independent committee to review and decide on cases.
- The DRC would advise and make recommendations on improvements needed to the dispute system, and provide an annual report to the FSC membership on all formal actions taken.
- An independent committee serves to keep the policy setting functions in the hands of FSC staff, Technical Working Groups, and FSC stakeholders.



Table 1

FSC Organizational Tree





Attachment: Table 2 on Roles and Responsibilities

Summary of Major Roles and Responsibilities (four categories)

A. National Initiatives and the FSC

	FSC-AC International (1) <i>(IC, ASI, and GDC)</i>	FSC National Initiatives <i>(and Working Groups)</i>	FSC Regional Networks <i>(for each region)</i>
System Management Roles (2)	<ul style="list-style-type: none"> • Global 'Rules of the system' • System Integrity • Accrediting system participants • Global Brand Identity • System Development & Growth 	<ul style="list-style-type: none"> • Promotion & marketing • "Shop front" for the country • Trademark management, e.g. <i>National Standards</i> <i>Controlled Wood</i> <i>Retailers</i> 	<ul style="list-style-type: none"> • Adopt regional priorities via a Regional Council (RC) • Develop annual cost and program proposals with FSC-AC
Organization Roles	<ul style="list-style-type: none"> • "Shop front" for non-NI countries • Promotion in non-NI countries • Trademark mgmt in non-NI countries • Organisational Leadership • Organisational Development • Global governance • International stakeholder relations • Membership system 	<ul style="list-style-type: none"> • Monitor integrity • National stakeholder relations • National governance • Government & media relations • Membership 	<ul style="list-style-type: none"> • One delegate from each NI forms the RC • FSC regional offices (where they exist) coordinate with the RC • RC's elect/appoint one NI delegate to FSC Board each year

(1) The parent FSC-AC is a civil association chartered in Mexico. FSC-AC has three separate business units: FSC International Center, Accreditation Services International, and FSC Global Development Company

(2) Parts of this table courtesy Michael Spencer, FSC Australia



B. Membership

FSC Members

- Vote in all elections
- Pay dues to *either* NI or FSC IC (*with intent of dual membership platform eventually*)
- Participate in formal FSC decision-making bodies, e.g.
 - Board of Directors*
 - Dispute Resolution Committee*
 - Technical Working Groups*
 - General Assembly*
- Participate in stakeholder consultations and surveys

FSC Supporters

- Pay dues to *either* NI or FSC IC (*reduced rate from full membership*)
- Participate in stakeholder consultations and surveys
- Support building FSC brand



C. Board of Directors & Senior Staff

Board of Directors

- Define and refine FSC's overall direction: "trustees" of the FSC
- Hiring and firing of the Executive Director of FSC AC (Director General)
- Evaluate organizational performance against the Global Strategy
- Review and approval of the financial accounts
- Assist in fundraising and high level contacts

Executive Committee of the Board

- Made up of BOD Chair, two Vice Chairs, Treasurer, and Director of FSC-AC
- Monitor organizational finances
- Ongoing support and advice to the Director of FSC-AC
- Review and recommend changes in strategic direction to the full Board
- Ensure coordination of Board committees and functions

Director General (FSC-AC)

- Financial consolidation and high level donor relationships
- High level political representation of FSC & Strategy leadership
- Monitoring overall performance of each business unit
- Governance administration

Senior Executive Group

- Made up of Director General and the Executive Directors of FSC-IC, ASI and GDC
- Supervise all operations of FSC's three business units
- Provide services and communicate with FSC members and stakeholders
- Manage relationships and contracts with Regional Networks and NIs
- Principal liaison with CBs and Certificate Holders
- Hold and manage key customer and client accounts
- Ensure coordination of FSC business units and functional responsibilities



D. Dispute Resolution

Dispute Resolution Committee

- Independent oversight of FSC dispute system
- Ongoing review of system for complaints and appeals for each FSC business unit
- Certify annual performance review of complaint system
- Serve as highest appeals body for all FSC decisions
- Deliver consistent and timely decisions that help improve overall trust