

# Organizational Governance

## What makes good Boards great?

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This white paper is based on a literature review of organisational governance and, in particular, governance of non-governmental organisations plus a review of the By-laws from three Cambodian non-governmental organisations.

### Mission-Based Governance

The role of a Board should derive from broad principles of good governance and be tailored to the organisation's mission as well as its people, size and complexity, key stakeholder relationships; cultural norms, values and the external operating context. One of the strengths of this "mission-based approach" to governance is that it accommodates the different kinds of organizations within the non-profit sector.

#### Five Principles for Good Governance

1. Legitimacy and Voice (through participation of stakeholders in decision-making)
2. Strategic Direction (vision)
3. Performance (measured by responsiveness to stakeholders and also effectiveness and efficiency)
4. Accountability and transparency
5. Fairness (based on equity and rule of law)

The elements of a governance framework can be divided into three interrelated and overlapping areas:

- First, the local law under which it was created and the By-laws of each organization
- Second, policies and rules that a Board may decide to adopt to define in more detail about how it will carry out its responsibilities
- Third, informal governance (the traditions, values, founding principles and culture that are typically unwritten but that nonetheless prevail in the organization.)

In practice, a great deal of what happens in governance falls in this third area. Informal governance may include things such as how conflicts are managed, decision-making styles, and how the Board actually conducts itself in relationship to the organization's statement of values and code of conduct.

## When Things Go Wrong

Things can go wrong for many reasons, including history and traditions, assumptions and perceptions, people and their values and an organization's governance framework. Typically, though, difficulties arise from problems in a few core areas: (a) an inadequate understanding of the role of the Board; (b) an inadequate understanding of where the borders between Board and staff responsibilities lie *and* the need for these borders to change over time due to changing circumstances; and (c) a lack of understanding of the key accountabilities of the organization. However, to address problems such as these in an enduring way, it is important to address the root cause(s), not just the symptoms. Many times, everyday problems act as warning signs for deeper issues within the organization's governance structure. A comprehensive list of DOs and DON'Ts for healthy governance can be found in Attachment I.

## When Things Go Right

But it is also important to focus on what makes Boards work. This section highlights seven areas that are of particular importance in good governance: getting the right members; role clarity; engaging in 'real' work; confidence and trust; and authority, responsibility and accountability

### 1. Getting the right members on board

At their best, Boards reflect the collective efforts of accomplished individuals (rather than of one or two individuals alone). A diverse Board increases the Board's effectiveness and expands the leadership base. Thus a Board should seek out a range of expertise (covering people management, fiscal, legal, funding or programming skills) as well as inclusiveness with respect to gender, age, ethnicities as well as representatives of the client populations being served.

For a local NGO in the Cambodian context, it is advisable that less than 50% of the voting members of the Board are expatriates.

### 2. Getting clear about the scope of your role as a governing body

Organisational governance is about having overall responsibility for ensuring (a) that an organisation's work contributes to its mission and purpose; and (b) that its resources (financial and human) are used wisely and effectively. It means ensuring that the organisation is well-managed, *without* having to be involved in the management. Strategic thinking and oversight characterize the Board's leadership role.

The following functions enable the Board to carry out its responsibilities.

- **Planning:** The Board works with the organization's management to develop strategies to ensure that the mission and purpose of the NGO are carried out. Board members approve short- and long-range plans for the organization. They also monitor the effectiveness of the organization's programs to see if they have met their goals and objectives.

- **Personnel:** The Board hires the organization’s Executive Director<sup>1</sup>, makes assignments to the Executive Director, and monitors her/his performance. It is appropriate for the Board or a personnel committee to conduct a formal annual performance appraisal of the Executive Director. The Board approves salary scales and job descriptions for the staff members hired by the Executive Director. The Board also approves personnel policies.
- **Financial:** The Board approves budgets for the organization. No funds should be expended unless the funds are included in a budget approved by the Board. The Board also approves spending reports. The Board is responsible for the legal and ethical actions of its members and those of the organization. The Board is responsible for procuring adequate resources to enable the NGO to fulfil its mission. This includes approval of fundraising plans. Board members are also expected to participate in fundraising.
- **Public relations:** Board members are aware of all of the organization’s activities and participate in appropriate activities in the community. The Board seeks opportunities to enhance the public image of the organization.
- **Monitoring and evaluation of programs and services:** The Board approves monitoring systems and evaluation systems and reviews their results. The Executive Director, staff, and other stakeholders implement the systems. The Board uses monitoring and evaluation information in making decisions to allocate resources and strengthen programs and services.

To manage the day-to-day operations of the NGO, the Board of Directors appoints an Executive Director. The Executive Director’s major responsibility is to administer and manage all day-to-day operations of the organization, including:

- Hiring and supervising staff
- Ensuring quality project cycle management (assessment, design, implementation, evaluation and learning)
- Monitoring finances
- Providing ongoing leadership
- Advising and reporting to the Board on the NGO’s operations, and
- Speaking on behalf of the organization as delegated by the Board

### 3. Engaging the Board in ‘real’ work

Too often Board members can feel underutilized. Energised NGO Boards engage in “work that matters.” They stay away from low-level activity and focus instead on success and contribution. To be effective, the Board:

- Concerns itself with crucial issues central to the institution’s success.
- Is driven by results that are linked to defined timetables.

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<sup>1</sup> Because Executive Director is a commonly used title for the Head of local NGOs in Cambodia, it is used throughout instead of other titles, like CEO (Chief Executive Officer).

- Develops clear measures of success.
- Engages with the organization's internal and external constituencies.

In working with its Board, an Executive Director needs to bring the Board's attention to issues that generate high levels of interest and which demand broad participation and widespread support.

Board members and management together must determine the important issues and the agenda of the organization. In addition, Board members need to understand what the Executive Director sees as the critical issues *and why*. They also need to know what other stakeholders and industry experts think.

A key role for the Executive Director then is to present a solid 'business case' to the Board when planning to embark on a new program direction or when steering the organisation along a new path, so that the Board can support her/him in the work.

#### **4. Building confidence and trust**

There must be a good relationship between the Executive Director and the Board if the organisation is to fulfil its mission. The terms of this relationship must be clearly stated. When there are unclear roles and responsibilities, efforts can be duplicated, important issues can be missed and confusion or even conflict can occur. But a good working relationship is not based on written roles and responsibilities alone. It is also based on the principles of respect and trustful communication.

Although the Board should avoid interfering in the work of the Executive Director, it should provide the Director with support. This is part of accountability. It is unfair to delegate authority and responsibility to someone without giving them encouragement and support. Support is usually given to the Executive Director by the Chairperson of the Board. They should aim to meet regularly. Support might involve giving her/him feedback on performance; taking an interest in her/his well-being and providing support where necessary; providing her/him with opportunities for professional development; and providing a listening ear or advice on issues that the Executive Director faces, such as staff problems

#### **5. Authority, responsibility and accountability**

The first step in building a trustful working relationship is to get clarity on the scope of responsibility, performance expectations and levels of authority.

Authority is the power to act without having to gain further permission from those delegating the authority. It is possible to have responsibility without authority, but someone with authority always has responsibility. Someone with authority has a responsibility to use their power for the good of the organisation's work and not their own wishes.

Both responsibility and authority are linked to accountability. Accountability is answering for the result of one's actions or lack of action. Thus those in authority are

accountable to those who gave them authority – in short the Executive Director is accountable to the Board.

## **6. Establishing accountability systems**

As the Board is ultimately accountable for the work of the organisation, it should consider how to keep accountable those to whom it delegates responsibility and authority. This could involve:

- Identifying targets to show the extent of the responsibility delegated. For example, setting a target to show how much money needs to be raised in a particular year.
- Identifying indicators that show progress towards achieving the responsibilities that have been delegated (e.g. three-monthly financial reports to show how much money has been raised and from where).
- Checking that authority is not being abused (e.g. through an independent financial audit).
- Putting limitations on the authority or responsibility that is delegated (e.g. compliance with financial procedures).

## **7. Adapting to the changing needs of the organisation**

As organisations develop, the form and needs of governance develops. When an organisation is small and starting off, there is less need for formal structures to guide the Board's role. As the organisation matures, the Board will become more professional, and the roles of the Board and the Executive Director need to be more clearly distinguished and practised. Lines of responsibility and delegated authority must be understood by all concerned.

The only time that the Board should take on a management role is if the organisation goes through a time of crisis. For example, if the Executive Director fails to carry out her/his role effectively, the Board may need to step in to manage the organisation while a new Executive Director is recruited.

## Attachment I

### DOs and DON'Ts of Good Governance

As noted above, many times, everyday problems act as warning signs for deeper issues within the organization's governance structure. Here is a list of DOs and DON'Ts for healthy governance:

#### 1. Board / Executive Director roles

- DO clearly define Board and Executive Director roles
- DON'T let the Board become involved in labour/management conflicts
- DO make sure Board members resign from the Board when assuming the Executive Director or any other staff position.

#### 2. Stakeholders and Accountability

- DO know who your stakeholders are and what roles they play for the organization.
- DO ensure full and transparent accountability to those who select the Board, fund the organization and other important stakeholders.

#### 3. Board Selection

- DO use consistent and transparent processes to select Board members.
- DO recruit Board members who are interested in governance as well as committed to the organizational mission.

#### 4. Development Stages

- DO recognize that your organization may require different approaches to governance at different development stages.
- DON'T get mired in tradition and past practices that don't match your organization's current needs or approach

It is time to re-evaluate the organization's governance approach when the number of staff has grown or decreased by more than half; the mission or mandate has changed; the client base or the way the organization offers services has changed (e.g. local to provincial); the organization has experienced more than one financial crisis in the past two or three years; the exact same governance model has been used since the organization began more than five years ago.

#### 5. Dealing with Crises

- DO manage crises without restricting tomorrow's options.
- DON'T abandon approved governance practices when managing a crisis.

Events that can cause a crisis situation include a prospective merger with another organization; attempts to make significant shifts in organizational culture; loss of key Board members; turnover in the Executive Director position; major public controversy;

major external or internal conflict; and significant changes in the external financial, political, or policy environment

Many of these crises can create considerable turmoil in an organization. Recovery from this type of experience typically takes many years.

6. Board Orientation

- DO provide all new Board members with an orientation session covering both the organization and their governance responsibilities.

7. Size, Complexity, Geographic Scope

- DON'T engage in governance practices that are not suitable for the current size or complexity of the organization.
- DO take into account the different realities of national and provincial organizations vs. local organizations when choosing governance practices.

8. Financial Issues

- DO scrutinize financial statements thoroughly and have a clear understanding of your non-profit's current financial realities, past trends and future projections.
- DO adopt an entrepreneurial approach to the business of your non-profit, but carefully assess financial risks.

9. Conflicts of Interest

- DON'T let personal or political agendas interfere with the Board's responsibility to serve the best interests of the organization.
- DO address and manage conflicts of interest directly, constructively, and tactfully!

10. Good Communication

- DO develop a climate of cooperation and communication between the Board, Executive Director and staff.
- DO ensure stakeholders are kept up-to-date on the organization's activities and objectives.