

Governance of BMOs

Leadership and governance

Leadership refers to the lead provided by the Chairman, the board and the CEO. Governance refers to the rules and systems, whether formal or informal, intended to keep an organisation on the 'straight and narrow'.

Leadership

Organisations work well when there is someone, or a group of people, who sets a clear direction and who inspires the whole organisation to work towards a common purpose. Leadership is not about observing the rules or about telling people what to do, but rather about inspiration, example and confidence building.

Governance

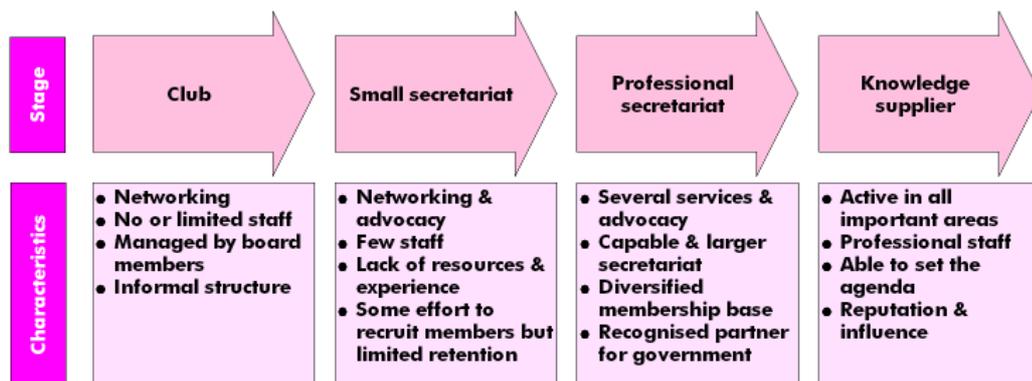
Business membership organisations and other not for profits are usually constituted as an Association, a Company Limited by Guarantee or a Trust.

All the requirements of how the organisation's affairs must be conducted are summarised in a legally registered governing document such as a Memorandum and Articles of Association or a Trusteeship Deed. These documents also specify the roles, powers and obligations of the organisation's members and officials.

A membership organisation should maintain an up-to-date register of its members. Indeed, companies have a legal obligation to do this.

There is usually a governing Council of some description, elected by the membership. Either the members directly, or the Council, will elect officials – usually a Chair, Secretary and Treasurer. Larger BMOs may additionally create a management committee, typically comprising the officers and perhaps three or four others. The Council is typically responsible for setting the strategy and the policies of the organisation, for ensuring that all legal obligations are satisfied, and for monitoring the performance of the executive. Some BMOs may create sub-committees, on a standing basis such as a finance committee or audit committee or staffing committee, or on an ad hoc basis such as a committee to deal with a specific advocacy initiative.

Figure 1: BMO stages of development



Source: Adapted from World Bank, "Building the capacity of membership organisation", 2005

It may take a little while for a BMO to develop to the point where it needs such a committee structure. Most BMOs start more like a club, providing some networking for members, and with a very informal structure. However, if the BMO is going to deliver value, it is likely that it will need to progress beyond that. Often the first step is to employ one or two people and to engage in advocacy. But it then needs to look at providing additional services in order to attract additional members.

Corporate governance

Corporate governance is the system by which organisations are directed and managed. The objectives of any system of corporate governance are to organise relationships between owners, boards of directors and managers in a way which promotes the long term growth and profitability of the enterprise. According to Sir Adrian Cadbury, corporate governance “is a system by which organisations are directed and controlled. You set your direction and establish controls to ensure that you keep on course and can account for what you are doing”. Corporate governance defines how the objectives of the company are set and achieved, how risk is monitored and assessed, and how performance is optimised.

Good corporate governance structures encourage organisations to create value (through entrepreneurship, innovation, development and exploration) and provide accountability and control systems commensurate with the risks involved.

Non-profit organisations do not have owners and do not have to worry about maximising profit or returns to shareholders. They do, however, have to demonstrate that they have a role to play in the community, and they do still need to aim to make a surplus since otherwise, like any for profit business, they will become insolvent. They do have to set targets and, if they are to be successful at raising the funds that they require, they have to meet those performance targets. This increasingly requires improving organisational efficiency. According to Regina Herzlinger¹ “in a society that demands increased accountability, non-profits need powerful and pro-active boards of directors to provide oversight”.

Herzlinger argues that “if the board of a non-profit is to be effective, it must assume the roles that owners and the market play in business. The board must ensure that the non-profit’s mission is appropriate to its charitable status and that it accomplishes the mission effectively, that is no easy task. Consequently the board must devise its own system of measurement and control”.

It is interesting to ask what motivates the board member of a non-profit. Does the motivation shape the role that is undertaken and in some cases reduce the sharpness and input compared with a similar role in a for-profit? A non-profit needs a similar input from its board to that of a for-profit.

Typically the board of non-profit is wholly or mostly non-executive, though usually the senior staff effectively act as executive directors and attend board meetings. It is important that the board has effective oversight and is intimately involved in setting policy and direction; for day to day purposes, however, it is also important, that the board neither constrains the executive’s ability to be innovative and entrepreneurial nor requires the executive to spend so much time reporting to the board that they fail to complete their roles of directing and managing.

As a result of the Cadbury Report, commercial enterprises, at least in the UK, are increasingly separating the roles of Chairman and Chief Executive. The Chairman tends to be outward looking, developing networks and relationships and acting as ambassador for the business; the CEO tends to concentrate on managing the business. Non-profits have always had different people as Chairman and CEO – and then often allow the CEO to undertake both roles.

¹ Writing in Harvard Business Review, July-Aug 1994.

What constitutes good corporate governance will evolve with the changing circumstances of an organisation and must be tailored to meet those circumstances. There is no single model of good corporate governance.

One non-profit defined the board's role as:

- setting the company's strategic aims (including defining the purpose and goals, determining policy and approving regularly strategies and business plans) based on discussions with the executive;
- supervising the management and financial control of the business;
- building partnerships and networks with other relevant organisations at local, regional and national level; and,
- reporting on the directors' own stewardship.

Others summarise the board role as scrutiny, compliance, accountability, responsibility and setting and safeguarding the organisation's values.

Key Principles of Good Governance

Boards of non-profits may wish to consider these 10 principles which underlie good corporate governance. Although these are not mandatory and cannot, in themselves, prevent corporate failure or mistakes in corporate decision-making, they can help to minimise problems and optimise performance and accountability.

Any corporate governance structure requires establishing the roles of management and the board, with a balance of skills, experience and independence appropriate to the nature and extent of the operations. There is a basic need for integrity among those who can influence a company's strategy and financial performance, together with responsible and ethical decision-making.

- The organisation is led and controlled by an effective Board of trustees with a clear understanding of purpose, direction and priorities, which provides leadership and which takes collective responsibility to ensure delivery of its objects with a focus on long term impact and which is the guardian of the organisation's values.
- Structuring the board to add value: have a board of composition, size and commitment to discharge effectively its responsibilities and duties; ensure that the board has clear responsibilities and functions and organise itself to discharge them effectively; consider whether to co-opt directors in addition to those elected by the members in order to bring specific expertise; avoid conflicts of interest; set out clearly the functions of sub-committees, officers, the chief executive, other staff and agents in clear delegated authorities, and monitor their performance; be clear about, and manage, the boundaries between board and executive.
- Everyone on the board and all the senior staff have read and understand the Memorandum & Articles, or other governing documents, and is confident that the organisation's systems and procedures reflect the requirements set out in the governing documents (and any other legal or regulatory requirements), the organisation's values and the organisation's plans
- Everyone on the board and all the senior staff have read and understand the organisation's strategy, business plan and financial plan and are clear about the organisation's objectives and priorities;
- Trustees take collective responsibility and are accountable for ensuring that the organisation is performing well, is solvent and complies with all its obligations; everyone understands the part they play in achieving success for the organisation, including recognising the importance of effective and focussed board meetings, with the board focusing on strategy, holding the executive to account, and its legal responsibilities and not interfering in the day to day management of the organisation; set out formally the respective roles and

responsibilities of board and management; review regularly board and management effectiveness;

- Act in accordance with high ethical standards; promote ethical and responsible decision-making; ensure that conflicts of interest are properly dealt with; ensure everyone is properly informed, with well prepared reports, papers and proposals, and with information flows designed to enable effective decision making;
- Preparing management accounts in a comprehensive and timely way, appropriate to the needs of the organisation, and everyone understands how to read and interpret them; ensure accounts are audited and published annually;
- Develop and maintain good relationships amongst all stakeholders based on trust, openness, transparency and accountability (especially, but not exclusively, between board and executive); respect the rights of the members and ensure that members can exercise their rights; recognise the legitimate interests of stakeholders;
- Ensuring resources are well targeted;
- Trustees should periodically review their own and the organisation's effectiveness and take steps to ensure that both continue to work well.
- Ensuring risks are assessed, mitigated and effectively managed.

The Governance Hub in the UK has set out 12 specific responsibilities for boards:

The 12 Board responsibilities

▶ Set and maintain vision, mission and values

The trustee board is responsible for establishing the essential purpose or mission of the organisation. They are also responsible for guarding its vision and values.

▶ Develop strategy

Together, the board and chief executive officer develop long-term strategy. Meeting agendas reflect the key points of the strategy to keep the organisation on track.

▶ Establish and monitor policies

The trustee board creates policies to govern organisational activity. These cover:

- Guidance for staff
- Systems for reporting and monitoring
- An ethical framework for everyone connected with the organisation, including dealing with conflicts of interest
- Conduct of trustees and board business

▶ Set up employment procedures

The trustee board creates comprehensive, fair and legal personnel policies. These protect the organisation and those who work for it. They cover:

- Recruitment
- Support
- Appraisal
- Remuneration
- Discipline

▶ Ensure compliance with governing document

The governing document is the rulebook for the organisation. The board makes sure it is followed. In particular, the organisation's activities must comply with its charitable objectives.

▶ **Ensure accountability**

The board should ensure that the organisation is accountable as required by law to:

- Charity Commission (or equivalent)
- Inland Revenue (or equivalent)
- Customs and Excise (or equivalent)
- Registrar of Companies (or equivalent).

The board also needs to make certain that the organisation is accountable to donors, beneficiaries, staff, volunteer, and the general public. This means publishing annual reports and accounts and communicating effectively.

▶ **Ensure compliance with the law**

The board is responsible for making sure that all the organisation's activities are legal and to meet all statutory obligations imposed by the Companies Acts and other legislation including

- Annual returns
- Notifications (eg of new directors)
- Maintaining accounts, preparing annual accounts and ensuring an annual audit is undertaken, as necessary
- Maintaining registers (eg of members) and minute book
- Payment of taxes
- Registrations and permits
- Staff conditions of employment & personnel policies
- Environmental requirements
- Health & safety requirements
- Data protection requirements

▶ **Maintain proper fiscal oversight**

The board has a fiduciary duty to the company to act honestly, in good faith and in the best interests of the company as a whole. It is responsible for effectively managing the organisation's resources so it can meet its charitable objects. It is responsible for:

- Securing sufficient resources to fulfil the mission
- Monitoring spending
- Approving the annual financial statement and budget
- Providing insurance to protect the organisation from liability
- Seeking to minimise risk
- Participating in fundraising (in some organisations)
- Ensuring legal compliance

▶ **Select, manage and support the chief executive**

The board creates policy covering the employment of the chief executive. It selects and supports the chief executive and reviews his or her performance.

▶ **Respect the role of staff**

The board recognises and respects the domain of staff responsibility. At the same time, it creates policy to guide staff activities and safeguard the interests of the organisation.

▶ **Maintain effective board performance**

The board has a duty to exercise the level of skill and care in carrying out their duties that could reasonably be expected from someone of their ability and

experience keeps its own house in order. In particular, it should take steps to establish:

- Productive meetings
- High standards of trustee conduct
- Effective committees with adequate resources
- Development activities
- Recruitment and induction processes
- Regular performance reviews
- Partnership with consultants where necessary
- Avoidance of conflicts of interest
- ▶ **Promote the organisation**

Through its own behaviour, governance oversight and activities on behalf of the organisation the governing Board enhances and protects the reputation of its organisation. Board members are good ambassadors for the organisation.