

Board Governance

By

NICKSON MOSETI ONGAKI

Email: nongaki@ccg.or.ke/nickson.moseti@gmail.com

Introduction

The Board does not exist to help manage the organisation but to represent some larger ownership. It must therefore be clear to a Board exactly who the owners (legal or moral) of the organisation are. The Board should primarily identify with the owners, not the managers or professional staff.

The Board has authority to direct the organisation only when acting as a group. No individual trustee has any authority over the organisation. To function effectively, the Board must speak with one voice.

The Board functions best by focusing on underlying value rather than by making discrete, operational decisions. Boards should develop policies based on values, and then delegate to Management the responsibility to perform under the policies.

The most important Board work is centered around the “why” of the organisation; developing policies that define the organisation’s ends or outcomes, not its activities. The services and activities of the organisation must be seen as means to an end, not as the end themselves.

The Board clearly defines the job of the Chief Executive Officer, as well as the authority delegated to the CEO by the Board.

The Board monitors organisation performance, and conducts ongoing evaluation of CEO performance, based on attainment of stated ends or outcomes and compliance with Board policies. Too often, Boards pretend to govern, while their managers pretend to work for them. To help overcome this, once the Board has selected a CEO to run the organisation, it should let him or her run it - within the scope of the Board policies.

The Board explicitly states principles and rules for its own operation. Such rules and principles include: A Board job description, along with a job description for the Board and Committee Chairs; Board Committee structure and principles; style of governance decision-making; and, control of agenda materials and information flow, among others.

The Board focuses on its own job more than on those of subordinates, using rigorous self-evaluation to stay on the proper track.

Board meetings are for creating the future, not for hearing reports about what happened last month, nor for rubberstamping decisions that should be the domain of Management.

Ongaki's Principles of Governance

1. Boards act in trust for those who morally own the organisation.
2. The Board speaks with one voice or not at all.
3. Board decisions should be predominantly policy decisions.
4. Boards should write policy by determining the broadest values before progressing to more narrow ones.
5. A Board should define and delegate rather than react and ratify.
6. Ends determination is the pivotal duty of governance. Ends answer the questions:
 - ❖ What results do we want to achieve?
 - ❖ For whom do we want these results to benefit?
 - ❖ At what cost can these results be achieved?
7. A Board's best control over staff means is to limit not prescribe.
8. A Board must explicitly design its own processes and products.
9. A Board must forge a linkage with Management that is both empowering and safe. The Board instructs no staff but the Chief Executive
10. Performance of the Chief Executive must be monitored rigorously but only against criteria set by policy.

Why Do Boards Exist?

1. They are required by law

- Boards are legal guardians of the corporate person.
- Responsible to owners of the corporation (community for non-profits)
- Boards authority is collective. Individual members have no authority.
- Chairperson is the spokesperson for the Board.
- Company Act defines legal obligations of Boards of directors.

2. They act as agents of the owners

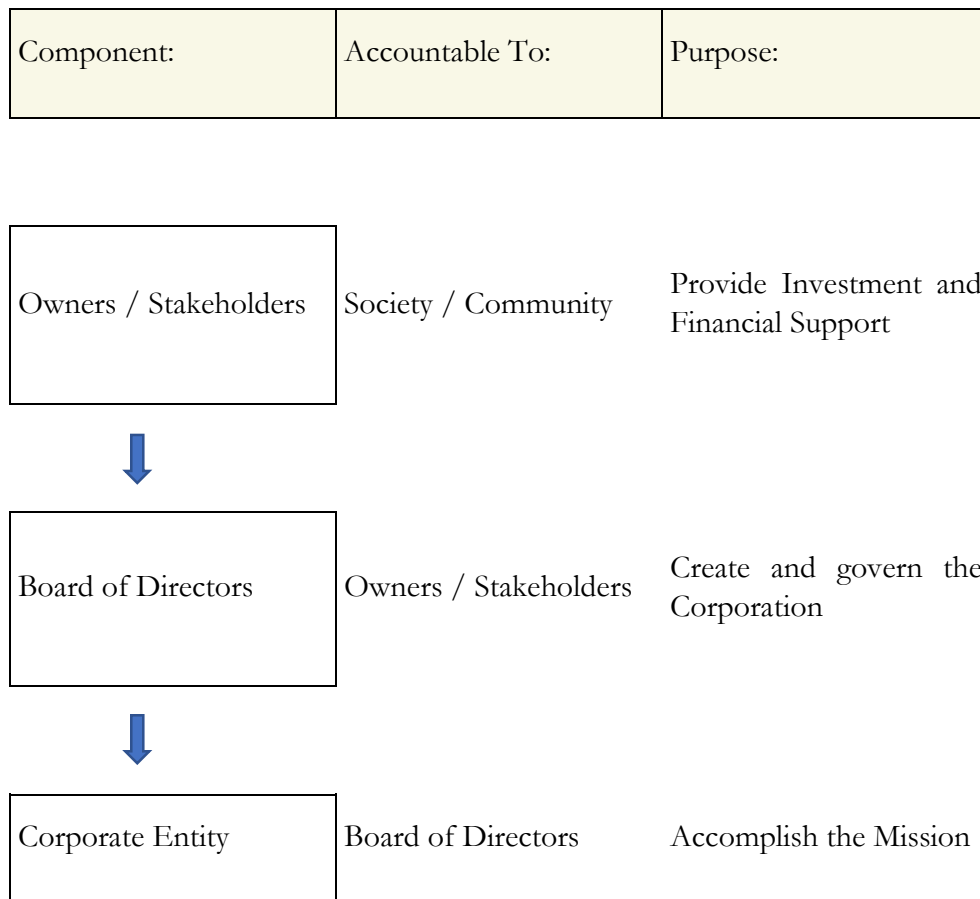
They have the authority to organize and act to carry out the purpose for which the corporation was formed.

3. **They have a fiduciary responsibility for the proper use of resources entrusted to the corporation.**

They must ensure that those “at interest” personnel (Management, employees and volunteers) function in ways that further the corporation’s mission. Since “at interest” individuals derive their livelihood from the corporation, their interests and those of the corporation may not always be perfectly aligned. Only Boards are empowered to perform these functions for the corporate entity.

Corporate Relationships

When a corporation is formed the following structural relationships are established:



These structural relationships establish the legal authority and accountability of the Board of directors. The Board is accountable to the owners (or stakeholders for non-profits) and should identify with them rather than the corporate Management. Board members are expected to

put the welfare of the corporation ahead of their personal gain. Non-profit Boards of directors should formulate a conflict of interest policy to protect against possible IRS penalties.

Board Responsibilities

Responsibilities describe how the Board carries out its agency function. These responsibilities define what the Board does:

1. Mission accomplishment

- ❖ Define the organisation in both the present (what we do) and future (what results we want to achieve).
- ❖ Approve or affirm the mission.
- ❖ Approve or affirm the key goals that will result in mission accomplishment or vision actualization.
- ❖ Ensure that operating plans and strategies lead to attainment of these goals
- ❖ All other responsibilities flow from and depend on the fulfillment of this one.

2. Leadership

- ❖ Select, support, and appraise the individual empowered to lead the organisation.
- ❖ The leader's role is to transform the mission into productive work.

3. Conduct of operations

- ❖ Define the moral, ethical and operating standards of conduct that reflect the values inherent in the mission.
 - ✓ Ensure that all operations are safe, legitimate and mission focused.
 - ✓ Ensure that the organisation is in compliance with all legal obligations.
 - ✓ Ensure that facilities and equipment are appropriate and well maintained.
 - ✓ Ensure that all products and services are delivered in a manner consistent with the values contained in the mission.
 - ✓ Ensure that employees, volunteers, vendors, and suppliers are treated in a manner consistent with the values contained in the mission.

4. Financial health and accountability

- ❖ Protect and enhance the resources needed to accomplish the mission.
 - ✓ Ensure these resources are used for legitimate purposes.
 - ✓ Ensure that resources are allocated effectively among competing uses.
 - ✓ Ensure that appropriate financial controls are in place.

- ✓ Ensure that capital investments are appropriate and provide the resources needed to carry out the mission.

5. Organizing and managing itself

- ❖ Organizing the Board to carry out the functions of governance.
- ❖ Boards cannot fulfill their first four responsibilities unless they do this one well.

The Role of the Board

Roles describe how the Board carries out its fiduciary function. These roles define how the Board acts.

1. Policy formulation

- ❖ **Formulation of policy is the primary mechanism Boards use to influence the organisation.**
 - ✓ Policies provide the guidelines that enable consistent decision-making.
 - ✓ Policies provide the framework for the Board's decision-making role.
 - ✓ Policies are the means by which the Board delegates its authority to Management.
- ❖ **Levels of policy.**
 - ✓ Statement of Board Responsibility- define the domain of governance and differentiate Board responsibilities from Management responsibilities. Should be written for each Board responsibility area.
 - ✓ Board policies- provide guidelines for Board decision-making and communicate the Board's expectations to Management. Flow from the applicable Statement of Board Responsibility.
 - ✓ Operating policies- formulated by Management to guide operational decision-making. Must be consistent with Board policies.

2. Decision making

- ❖ Board decisions are primarily strategic.
- ❖ Should be driven by policies to ensure consistency and focus.
- ❖ Scope of Board's decisions must be clearly defined.
- ❖ Use of a decision rule can ensure that the thinking of all Board members contributes to Board's decisions.

3. Oversight

- ❖ Ensures accountability for fulfilling the Board's responsibilities.
- ❖ It consists of measuring and evaluating performance and taking corrective action when needed.

- ❖ This role requires a governance information system to provide timely feedback.

The Work of the Board

Combining the Board responsibilities and roles produces a matrix which defines the work of the Board. Each cell represents what the Board should do and how it should do it. The following matrix illustrates the work of the Board.

	ROLES		
RESPONSIBILITIES	Policy Formulation	Decision making	Oversight
Mission	Formulate policies regarding development, review, and approval of mission, operating plans, and budgets.	Approve mission and any changes. Approve and authorize the annual operating plan and the supporting operating and capital budgets.	Appraise performance and appropriateness of any Management corrective action taken. Ensure compliance with Board policies.
Leadership	Define CEO's accountabilities and how performance will be appraised.	Select CEO. Determine compensation and annual increases.	Appraise CEO's performance.
Conduct of Operations	Formulate policies regarding personnel, facilities, maintenance, safety, financial controls, and other legal requirements.	Approve all policies formulated by Management that involve legal, regulatory, or external, issues.	Appraise and audit operations to ensure compliance with Board operating policies.
Financial Health	Formulate policies regarding financial reporting and controls, control and reporting of contributions and donations, and financial auditing.	Select independent auditor, review, and approve audit report. Approve financial	Monitor and appraise revenues, expenditures, and cash position. Ensure compliance with Board financial policies.

		investments and financing choices.	
Board Organization and Development	Formulate policies regarding Board member selection and expectations, Board member orientation, Board development, Board Committee assignments, Board planning and performance evaluation.	Approve by-laws and amendments. Select Board members. Elect Board officers. Approve Board Committee appointments, Board work-plan and annual Board budget.	Develop a Board information system to provide the information needed to carry out the Board's oversight role. Appraise Board performance.

The Role of Committees

Properly structured and well-functioning Committees facilitate the work of the Board. A Boards standing Committees should reflect the Board’s responsibilities. Therefore, Boards should consider having only five standing Committees with one Committee responsible for each of the Boards responsibilities.

Committees have no decision-making power. They perform the staff work of the Board and bring recommendations for action to the Board for approval. Each Committee should fulfill the following roles in the Committee’s area of responsibility.

1. Draft, review, and amend Board policies.

Boards can perform their policy formulating role more effectively if they delegate these tasks to applicable Committees.

2. Analyze issues, develop alternatives, and recommend Board action.

Boards can make more effective decisions if they delegate analysis to Committees who have more time to evaluate the issues.

3. Appraise implementation and effectiveness of Board policies and evaluate organisational performance.

Boards can make their oversight role more effective by distributing these tasks among Committees.

The Role of the Chairman

1. Manage the work of the Board

The Chairperson is accountable for planning, organizing and coordinating the work of the Board.

2. Act as the spokesperson for the Board

Only the Chairperson is authorized to speak for the Board.

Board Planning and Scheduling

Boards must plan and schedule their work to effectively govern their organisations. Since the work of the Board is governance, Boards must identify the work they must do to support the operations of the corporation.

The following process will help Boards develop their annual work plans.

1. Identify the work the Board needs to accomplish (the Board work matrix can be used as a guide for this)

- ❖ Determine what key decisions the Board will make during the year and when they must be made. This decision schedule sets the timing for Board policy actions. The Board typically makes the following non-recurring decisions when needed.
 - Approves the organisational mission and any changes.
 - Selects the Chief Executive (this is the Boards most important decision).
 - Approves by-laws and amendments.
 - Approves Board policies and changes.
- ❖ The Board typically makes the following decisions annually.
 - Approves the annual operating plan and supporting budgets.
 - Appraises performance of the Chief Executive and determines annual compensation.
 - Approves capital financing and investment options.
 - Selects the independent auditor and approves annual audit report.
 - Elects Board officers.
 - Selects new Board members.
 - Approves Board Committee appointments.
 - Approves Board orientation and education activities.

- Approves Board work-plan and supporting budget.
- ❖ Assess whether existing policies provide adequate guidance for these decisions. If not, determine where are they deficient and what changes are needed.
- ❖ Evaluate the effectiveness and usefulness of existing policies. Determine what changes or additional policies are needed.
- ❖ Assess the adequacy of the information used to oversee Board and corporate performance. Identify any new information requirements.
- ❖ Determine the actions the Board should take to ensure operations are conducted according to Board policies. These include performance reviews, audits, and inspections.
- ❖ Determine the Board's educational and development needs and how these will be fulfilled.
- ❖

2. Assign work tasks to Committees

- Committees schedule their work to meet the Board decision timetable.
- Committees develop the detailed work plans and schedules needed to carry out the Board's work.
- Committees present their work to the Board for approval.

3. Schedule the work of the Board and prepare meeting agendas

- A Board work plan and schedule are needed to assure the Board's work is accomplished.
- The Board's work plan and schedule are used to prepare the Board's and Committee meeting agendas.
- The Board's work plan and schedule provide a baseline for the Board to measure and evaluate its performance. Performance feedback is essential for the Board to effectively manage its activities and carry out its governance function.

The Chief Executive

The work of the Chief Executive is to manage the corporation. It is distinct and separate from the work of governance. Typical Chief Executive responsibilities and roles are presented here to illustrate this contrast.

Responsibilities

Responsibilities define what the Chief Executive must do. The following are typical CEO responsibilities but not necessarily the only ones

- Achieving the mission
- Organisational development
- Setting performance standards
- Effective and efficient use of resources
- Providing administrative support for the Board

Roles

Roles define how the Chief Executive carries out the responsibilities assigned. The following are typical CEO roles but not necessarily the only ones.

- Planner/ strategist
- Administrator/ supervisor
- Communicator

The Work of the Chief Executive Officer

Combining the Chief Executive Officer's responsibilities and roles produces a matrix which defines the work of the Chief Executive Officer. This matrix or a similar one can be used as a tool to define the position description and accountabilities of the Chief Executive Officer.

	ROLES		
RESPONSIBILITIES	Planner/ Strategist	Administrator/ Supervisor	Communicator
Achieving the Mission	Define organisational goals, formulate strategy, set objectives.	Plan and assign work. Delegate accountability for accomplishment.	Communicate results to Board, community, and workforce.
Organizational Development	Determine skills and competencies needed for mission accomplishment. Develop organisational structure.	Hire, train, and coach workforce. Develop the competencies needed to accomplish the mission.	Provide performance feedback to workforce.

Setting Performance Standards	Establish the performance standards needed to ensure mission accomplishment.	Measure and evaluate performance. Analyze variances and take corrective action when needed.	Communicate and explain performance standards to workforce.
Effective and Efficient Use of Resources	Develop work processes and controls that will provide efficient operations and prevent unauthorized use of resources.	Authorize work and supervise operations. Monitor and evaluate financial expenditures. Analyze variances and take corrective action when necessary.	Communicate financial performance to appropriate parties.
Administrative Support for the Board	Assist Board organize and plan its work.	Provide staff assistance to the Board.	Provide the Board with the information it requests to carry out its oversight role.

This description of the work of the Board and the work of the CEO demonstrates how each entity contributes to the performance of the corporation. High performance organisations exhibit strong teamwork between the Board and corporate Management. Good Board governance empowers effective Management action.