

## A. What is Governance?

One simple definition of governance is "the art of steering societies and organizations."

Governance is about the more strategic aspects of steering, making the larger decisions about both direction and roles.

**Governance** is a process whereby important decisions are taken. Decisions take place within a "framework" or a "system" that defines how the process works or, at the very least, is supposed to work. It is within this governance framework that an organization decides where it is going, monitors its performance, and allocates power and resources.

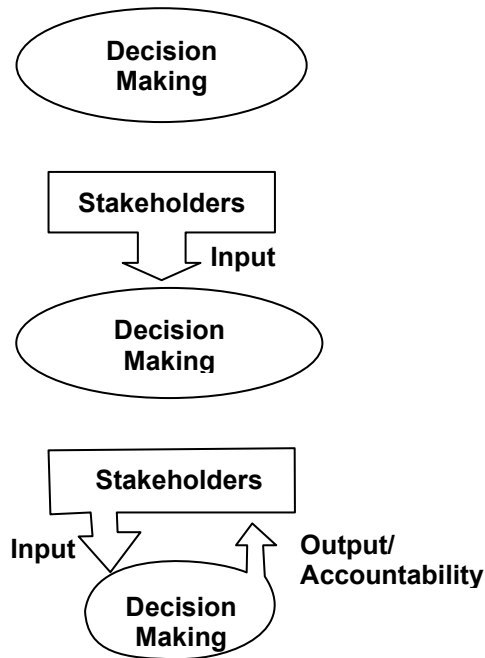


Figure 1. Relationship between Stakeholders and Decision Making

### A1. Why examine governance?

#### A1.1 The Paradox and the Challenge

The board-staff relationship is a paradoxical one. When acting in their governing role, the board must stand above staff and be the "boss." But when acting in their supporting role, board members act to support and assist staff-led work.

Some boards become so excited about their roles as governors that they **mistake governance for close supervision or management** and begin meddling in minor management affairs. In other cases, **as boards govern more, they shirk their supporting role**. The challenge is to fulfill both roles, not simply switch from one to another.

In short, boards have some inherent limitations in their ability to govern, including lack of time, lack of familiarity with the field, and lack of material stake. These limitations have been supplemented by the sector's nearly exclusive emphasis on the board's supporting role and by human tendency to avoid conflict. A first step towards an effective board is acknowledgment of the paradox, and the need to perform both functions equally well. A failure to govern as well as support is a transgression both against clients and the wider community. (IndianNGOs.com)

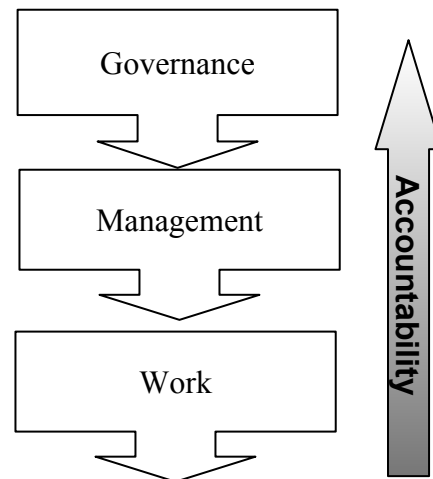
## A2. Where Governance Fit

There are three distinct roles that are necessary in order for an organization to fulfill its mission:

**Work** - Performing the tasks required to fulfill the mission

**Governance** - The interface with stakeholders, the source of strategic decisions that shape the organization and its work, and ultimate accountability for the work and actions of the organization

**Management** - The link between governance and work. The organization of tasks, people, relationships and technology to get the job done



In theory the divisions between these roles are clear. However, in practice the divisions become blurred, disappear altogether or, more dangerously, become confused. In the non-profit sector, the primary charge of boards is the governance role **but their responsibilities might often cross over into the management and work roles of the organization**. Senior management is almost always heavily involved in the governance role. **The real danger is not the mixing of these roles, but unclear definition of responsibilities and lost lines of accountability** (Institute on Governance).

## A2. The benefits of good governance

*Good governance leads to a number of positive consequences, including:*

- People trust your organization
- You know where you're going
- Your board is connected to your membership and stakeholders
- You get good decisions; people value your work
- You have the ability to weather crises
- Financial stability

There is a growing body of evidence linking governance and overall organizational performance.

### A3. What is good governance?

One goal of good governance is to enable an organization to do its work and fulfill its mission.

#### **Good governance results in organizational effectiveness.**

In public purpose organizations, good governance is about more than getting the job done. Especially in non-profits, government agencies and the like, where values typically play an important role in determining both organizational purpose and style of operation, process is as important as product. *Good governance becomes more than only a means to organizational effectiveness and becomes an end in itself.*

#### **Good governance is about both achieving desired results and achieving them in the right way.**

*“Good governance includes all the mechanisms, processes and institutions through which citizens and groups articulate their interests, exercise their legal rights and obligations and mediate their differences...transcends government to encompass the business sector and civil society” (NEDA, 1998).*

The United Nations published a list of characteristics of good governance. They include:

- **Participation:** providing all men and women with a voice in decision-making
- **Transparency:** built on the free flow of information
- **Responsiveness:** of institutions and processes to stakeholders
- **Consensus orientation:** differing interests are mediated to reach a broad consensus on what is in the general interest
- **Equity:** all men and women have opportunities to become involved
- **Effectiveness and efficiency:** processes and institutions produce results that meet needs while making the best use of resources
- **Accountability:** of decision-makers to stakeholders
- **Strategic vision:** leaders and the public have a broad and long-term perspective on good governance and human development, along with a sense of what is needed for such development. There is also an understanding of the historical, cultural and social complexities in which that perspective is grounded.

Table 1. Comparative Descriptions of Governance

Determinants of Governance	Indicators		
	United Nations Source: "Governance and Sustainable Human Development", United Nations Development Programme, 1997	Philippines Source: Innovations and Excellence: Understanding Local Governments in the Philippines by Alex Brillantes	IndianNGO.com
1. Transparency	built on the free flow of information	Availability of reliable information. Provision of appropriate, necessary and relevant information to stakeholders when needed and upon demand.	Is built on the free flow of information. Processes, institutions and information are directly accessible to those concerned with them, and enough information is provide to understand and monitor them.
2. Participation	providing all men and women with a voice in decision-making	Partnership with civil society. Provision of a voice for all stakeholders in the formal and informal decision-making processes	All men and women should have a voice in decision-making, either directly or through legitimate intermediate institutions and the represent their interests. Such broad participation is built in freedom of association and speech, as well as capacities to participate constructively.
3. Accountability	of decision-makers to stakeholders	Decision-makers are answerable for their actions and violators are penalized accordingly	Decision-makers in government, the private sector and civil society organizations are accountable to the public, as well as to institutional stakeholders. This accountability differs depending on the organization and whether the decision is internal or external to an organization.
4. General Organization and Management		Existence of clear organization and management institutions and processes characterized by absence or minimum of red tape.	
5. Inter-governmental relations		Vertical and horizontal, including clustering. Presence of coordinative	

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1. Transparency	built on the free flow of information	Availability of reliable information. Provision of appropriate, necessary and relevant information to stakeholders when needed and upon demand.	Is built on the free flow of information. Processes, institutions and information are directly accessible to those concerned with them, and enough information is provide to understand and monitor them.
		relationships from simple sharing of information to activity sharing, to clear delineation of hierarchy between and among national and local institutions, or among co-equal levels of local government.	
6. Rule of law		Legal systems in place. Stable and legal framework fairly and impartially enforced.	Legal frameworks should be fair and enforced impartially, particularly the laws on human rights.
7. Continuity in the implementation of programs, predictability, sustainability		Appropriate programs and projects initiated by previous administrations are continued after proper evaluation.	
8. Preference for the poor		Availability of local poverty alleviation programs. Manifest bias to address the pervading problem of poverty.	
9. Effective, responsive provision of basic services (Responsiveness)	of institutions and processes to stakeholders	Basic services, especially health, education, social welfare, are provided.	Institutions and processes try to serve all stakeholders
10. Strategic vision	leaders and the public have a broad and long-term perspective on good	Provision of clear and strategic long term vision (Leadership)	Leaders and the public have a broad and long-term perspective on good

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**B. HOW DO WE MEASURE GOVERNANCE?**

For an online evaluation of your organization’s governance status, please visit:

<http://www.iog.ca/boardgovernance/html/ass.html>



**Exercise 1: Governance – Characteristics**

Table 1 provided several descriptions of the different determinants of governance. While the United Nations may have provided basic framework for governance, its interpretation and use by other organizations (both private and public) have been contextual.

For this exercise, your task is to identify indicators for the different determinants of governance that you think would be appropriate for your own setting. This time however, you have to classify these indicators as structure, process or outcome. These indicators will be used later in developing instruments for assessing governance. You will present your result in a plenary.

Determinants of Governance	Indicators		
	Structure	Process	Outcome
Participation			
Rule of law			
Transparency			
Responsiveness			
Consensus orientation			
Equity			
Effectiveness and efficiency			
Accountability			
Strategic vision			
Others			

## Exercise 2: Developing the Instrument

Use the indicators identified in exercise 1.

*a. Prepare a rating scale for your indicators as shown below. (you may develop your own scale)*

Statement	RATING				
	Strongly Disagree	Disagree	Neither Agree nor Disagree	Disagree	Strongly Agree
<b>Example:</b> <b>Board authority.</b> This board's authority is clearly defined in writing and is sufficient to allow it to add value to the organization and its mission.	1	2	3	4	5
	1	2	3	4	5

*b. Prepare your guide for interpretation or analysis*

*c. Present your outcome to the big group in plenary*

## C. My Organization's Governance Status

### Exercise 3: Using the Instrument(s)

1. Earlier, you developed an instrument to assess your organization's governance status. Finalize or refine your instrument and use it now to analyze your own organization.
2. After the analysis, identify gaps and areas for improvement.

## D. How Do We Fill in the Gaps?

Some useful materials to help you fill in the gaps from Institute on Governance of Canada!

### D.1 Basic Role of the Board

Good governance in the non-profit sector means effective board governance. The board of directors is charged with achieving desired results in the right way.

All boards share a fundamental stewardship role which includes the inescapable basic responsibility to promote the health and well-being of their organizations.

What follows is a basic job description of the board, though this may vary from one type of board to another in practice. The responsibilities necessary to fulfill the governance role fall under three broad categories:



Representation	<ul style="list-style-type: none"> <li>• Represent the stakeholders</li> <li>• Carry the public trust</li>   <li>• Facilitate board rejuvenation — organize the selection of new directors</li> </ul>
Decision-making and leadership	<ul style="list-style-type: none"> <li>• Establish or affirm mission: Development and/or custodianship of the organizational purpose, mandate and identity</li> <li>• Strategic Direction: Provide vision for the future; Develop and implement the long-term plan; Set or approve the general direction and financing of the organization; Ensure that the organizational mission remains responsive to changes in the environmental context and organizational realities;</li> <li>• provide an accountability structure to management; direct and advise management; select, support, evaluate and, if necessary, terminate the senior manager</li> <li>• Financial Stewardship: Trusteeship of financial resources to ensure that funds are expended for the purposes intended</li> <li>• Human Resources Stewardship: Framework of HR policies</li> <li>• Risk management</li> <li>• Managing transitional phases and critical events: act as organizational safety net</li>   <li>• Represent organization to the community</li> </ul>
Accountability	<ul style="list-style-type: none"> <li>• Ensure transparency of the process</li> <li>• Monitor and evaluate performance</li> <li>• Responsibility and reporting to stakeholders</li>   <li>• Act as the ultimate source of accountability under the law for the performance and actions of the organization</li> </ul>

## D.2 Mission-Based Governance

Earlier thinking on governance thought there might be “one best way” to set up governance arrangements. This is reminiscent of the work of early writers about management who sought to identify the “one best way” of doing something. Proponents of this search for universal truths became known as the scientific school of management.

However, as thinking about management became more sophisticated, the idea that there must be universally valid best practices was abandoned in favor of a situational approach. That is, the right way to manage an organization depended greatly on its situation: its business or mission, its market, its stakeholders or clients, its history and traditions, and so forth.

Contemporary thinking on governance, and the work of the Institute On Governance, is rooted in our belief that just as there is no single model of management, there is no one “best” model of governance. Governance arrangements need to be tailored to take account of an organization’s mission, in addition to other factors like people, culture, traditions and relationships. We call this approach: mission-based governance. In our experience, one of the great strengths of this approach is that it accommodates the great diversity of organizations within the non-profit sector.

### **D.3 Differences Between Boards**

Although boards carry similar responsibilities, there is great diversity in how they function in both theory and practice. Boards do not all look alike because the organizations they govern are extremely different.

Through our extensive work in board governance, we have found that the role of the Board should derive from broad principles of good governance and the mission of the particular organization. Other factors that shape an organization and thereby affect the board’s role are:

- organizational needs
- areas of interest and "business"
- size and complexity
- key stakeholder relationships
- cultural norms, values and accepted traditions
- context and its place in the larger environment
- people, their personalities, their capabilities.

All this to say that there are huge differences among organizations in the non-profit sector. These differences mean that organizations vary in they way they:

- Define the board's governance role
- Determine the meaning of good governance

### **D.4 Building Blocks of a Governance Framework**

The elements of a governance framework can be divided into three main areas, although the elements all interrelate and overlap with one another. The three areas are:

- the formal legislative context
- policies
- informal governance

First is the formal legislative framework of the organization. This is the area of an organization’s governance system that is most difficult to modify. Among the foundation and core documents that comprise this framework is the legislation under which it was created – be it the Canada Corporations Act, an equivalent provincial statute or relevant government legislation. Also included here are the **by-laws** that are particular to each

organization. Most often, by-laws require a vote of the membership at an Annual General Meeting to change.

The second element of the governance framework is the series of policies that a Board may decide to adopt to define in more detail how it will carry out its responsibilities, and the general rules under which it will operate. This part of the governance framework is easier to change than the formal by-laws or legal mandate of the organization.

Usually a board can change policies without reference to either the government or the membership. There is a range of possibilities for boards when it comes to adopting policies.

“Informal governance” refers to traditions, organizational 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 area. Informal governance may include things such as how conflicts are managed, how succession planning takes place, decision-making styles, and how the board actually conducts itself in relationship to the organization’s statement of values (if it has one) or code of conduct.

### **Top 10 Practices of Great Boards**

1. Be sure every member fully understands his or her accountability, responsibilities and the expectations of the office, and document it all in a written position description.
2. Choose members based on written criteria that define the professional backgrounds, skills, personal qualifications and diversity needed on the board – and reelect members based on continued strong performance.
3. Make the board a learning organization, integrating education and real-time learning into everything the board does, from fully engaging in strategic planning to policymaking, oversight and stakeholder relations.
4. Build a strong working partnership with the CEO, but never forget the board’s independent accountability to oversee executive performance.
5. Fully utilize strong working committees to perform detailed oversight and bring well-documented recommendations to the board.
6. Develop and use a dashboard or balanced scorecard of key performance indicators for finances, operations, business strategy, clinical quality, customer service and community benefit.
7. Ask why: Fully understand the information provided to the board, get to the root causes of variances and apply innovative thinking to board work.
8. Pay attention to building a healthy board culture — to how the board works as a team, asks questions, and takes action — as well as to its more tangible board structures and processes.
9. Develop a Board Policy Manual, including policies on how the board will perform important governance functions, such as strategic planning, budgeting, quality

review, CEO evaluation, audit, executive compensation review, board recruitment, succession planning and board self-evaluation, among others.

10. Make self-evaluation an integral part of ongoing board development; assess the performance of the full board and the chairperson, and when the board has established a strong culture of trust and confidence in itself, carefully begin a process of assessment and improvement of individual performance.

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## SAMPLE GOVERNANCE RESOURCES FROM GREATBOARDS.ORG

**EVALUATION OF BOARD MEETINGS**

Some boards find it useful to formally evaluate their meetings. Use this sample to customize an evaluation form for your meetings.

1. **Agenda:** The agenda included timely, appropriate and important items for board education, review or action.

Strongly agree                      Agree                      Disagree                      Strongly disagree                      Can't assess  
Comments:

2. **Materials:** Pertinent information was provided sufficiently in advance of the meeting for me to review. Information was presented clearly and concisely.

Strongly agree                      Agree                      Disagree                      Strongly disagree                      Can't assess  
Comments:

3. **Preparation:** Members came to the meeting well prepared for discussion.

Strongly agree                      Agree                      Disagree                      Strongly disagree                      Can't assess  
Comments:

4. **Use of meeting time:** Routine business was completed efficiently and the meeting provided sufficient time for substantive discussion or education on major topics related to organizational goals, policies, strategic directions or performance.

Strongly agree                      Agree                      Disagree                      Strongly disagree                      Can't assess  
Comments:

5. **Board Chair:** The Board Chair ran the meeting effectively and efficiently, balancing discussion with timely consensus and decision-making.

Strongly agree                      Agree                      Disagree                      Strongly disagree                      Can't assess  
Comments:

6. **Management:** Presentations and information from management were clear, concise and helped the board to understand issues and make decisions.

Strongly agree                      Agree                      Disagree                      Strongly disagree                      Can't assess  
Comments:

7. **My participation:** I had a sufficient opportunity to ask questions and express my views.

Strongly agree                      Agree                      Disagree                      Strongly disagree                      Can't assess  
Comments:

8. **Improvements:** Future meetings could be improved by (complete statement):

**BADER & ASSOCIATES**

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References:

National Economic and Development Authority (1998). Governance and Institutions Development, in the Philippine National Development Plan: Directions for the 21<sup>st</sup> Century

Brillantes, Alex (2003) Innovations and Excellence: Understanding Local Governments in the Philippines.

Internet links:

Institute of Governance  
<http://www.iog.ca/boardgovernance/html>

Barry S. Bader, Principal, Bader & Associates,  
Potomac, Md., [www.GreatBoards.org](http://www.GreatBoards.org).

[www.IndianNGOs.com](http://www.IndianNGOs.com)