

Governance Overview

By Chris Cornforth

What is Governance?

Perhaps surprisingly there is no one common definition of organisational governance. Often the term is used in different ways without underlining perspectives being clearly acknowledged or recognised (see for example Kumar and Nunan, 2002). The word governance comes from the Latin word meaning to *steer* or give direction, so organisational governance is about the overall *direction* of the organisation. However, this has to take place within a broader framework of *accountability* to stakeholders, regulators and the wider community. For our purposes here we will define governance as **'the systems and processes concerned with ensuring the overall direction, supervision and accountability of an organisation'**.

At the organisational level an organisation's governing body is charged with the legal responsibility for governing the organisation, and they are at the heart of most discussions of organisational governance. Governing bodies have to face two ways. Internally they are responsible for the overall *direction* and *supervision* of the organisation. Externally, they are responsible for making sure the organisation *complies* with appropriate laws and regulations and is *accountable* to stakeholders and the wider

community. However, it is important to remember that what a governing body does will vary between different organisations, and over time as the organisation changes. In particular in small organisations the governing body may be involved in the running and management of the organisation as well as its governance.

Why is Governance Important?

There are a number of reasons why good governance is important to the long-term health of an organisation. It can help:

- *safeguard the mission, values and resources of the organisation*. All organisations are in danger of suffering from 'mission creep' as managers or staff focus on pursuing their own particular projects or interests. Various governance mechanisms such as annual reports, external audit and particularly scrutiny by the governing body, provide a safeguard that the organisation is pursuing its mission and using its resources for the purposes for which they were intended.
- *ensure external accountability*. The governing body plays an important role in the chain of accountability. As the highest authority within the

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organisation they are in a position to hold managers and staff to account for their actions. They are also formally responsible for ensuring the organisation meets its obligations to account to external bodies such as regulators, donors, the wider community and, if it is a membership organisation, its members.

- **ensure the organisation performs well.**

An important role for the governing body is to ensure that any plans for the organisation are subject to critical scrutiny. Hopefully by bringing new perspectives and a more detached view they can make sure that proposals are robust and well thought out. There is some empirical evidence from the US that good governance is related to good organisational performance, although this is difficult to prove conclusively.

- by being a **'backstop'** if things go wrong. Things go wrong periodically in all organisations, perhaps key staff leave unexpectedly, management perform poorly, or funding is suddenly withdrawn and the organisation faces a crisis. Normally a governing body will be involved in risk assessment and trying to avoid crisis happening in the first place, but if the worst does happen then it is the duty of the governing body to try to ensure the crisis is resolved.

One reason the governing body commonly faces problems becomes clearer if we look at how its members see their role. There appear to be a number of common answers:

- **a supervisor or guardian:** safeguarding the resources of the organisation and making sure they are used for the purposes intended. In charities, this

role is underpinned by charity law, which was designed to prevent the 'agents' of a charity using its resources for anything other than those of the intended beneficiaries. Hence the emphasis is on supervising the organisation's management and staff, and how the organisations resources are used.

- **a director:** working with the executive of the organisation to provide strategic direction and leadership for the organisation. The emphasis here is on working in partnership with management to improve the performance of the organisation.

- **a representative:** ensuring the interests of particular stakeholders are represented on the governing body in order to improve the legitimacy of the organisation and its responsiveness to important groups such as members, users and funders. This role is underpinned by a more political perspective and draws on ideas of democratic or stakeholder accountability.

- **a supporter:** assisting the organisation's executive by providing support, access to resources and legitimacy to the organisation. This may be through 'lending one's name', opening doors, providing resources or using personal contacts and influence on behalf of the organisation. People are selected more for 'who they know' than 'what they know'. It is often this kind of role that organisations have in mind when they involve the 'great and the good' on their governing body.

Each of these roles is underpinned by a rather different model of how the governing body works. Each model has its own powerful logic, which has



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implications for governing body recruitment, its functions and relations with staff as set out in Table 1 (Cornforth, 2003a and b). If different governing body members and the staff they work with interpret their roles in different ways it helps to explain why it is difficult to get governing body members and staff to work together effectively.

Governing Body Relations With Management.

Another common area of difficulty concerns the governing body's relationship with management. It seems it is difficult for governing bodies to get this right. Common complaints from staff suggest that governing bodies either get too involved and meddle in the organisation's management, or

Table 1: Different models of how governing bodies work.

MODEL	Governing Body member role	Main Governing Body function	Governing Body-staff relations	Key issues
Compliance model	<i>Supervisor or guardian</i>	Supervision: - safeguard organisation's mission and resources - overseeing management/staff - legal compliance	Board control executive: governing body decides and supervises management/staff, who implement decisions.	Emphasis on control may stifle innovation and risk taking, and reduce staff motivation and enterprise.
Managerial model	<i>Director</i>	Improving Performance: - add value to top decisions/strategy - partner management	Partnership: governing body and executive work together to set strategy and improve performance	Emphasis on partnership may mean that management proposals and systems not given adequate scrutiny.
Political model	<i>Representative</i>	Political: - represent and balance different stakeholder interests - make policy - control executive	Governing Body control executive: executive one of a set of different interests the governing body has to manage.	Governing Body members may promote stakeholder interests rather than the organisations. May be difficult to mobilise support to make changes.
Supporters club model	<i>Supporter</i> - chosen for influence with key stakeholders	External influence: - secure resources - improve stakeholder relations - bring external perspective	Partnership: Management/staff use governing body to further the interests of the organisation.	External focus of governing body members may mean internal supervision is neglected.

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conversely aren't involved enough and simply act as a rubber stamp for management plans.

In order to understand this problem it is helpful to look at how many organisations evolve. When organisations are new they often have few or no staff and, in many ways, the governing body is the organisation. As a result the governing body will be involved in the day-to-day running and management of the organisation, as well as its governance. As organisations grow and take on staff, then the staff will increasingly take on day-to-day responsibilities for the organisation, but the inevitably fluid and changing nature of the relationship between the governing body and staff can lead to disagreement and conflict.

However, even when an organisation has grown to the extent where it has a clear management structure, difficulties frequently remain. One of the most common pieces of advice given to a governing body and management is to clarify their respective roles. Unfortunately this is easier said than done. The reason is that the work of management and the governing body are interdependent. The governing body will depend on management for much of its information and to implement its decisions. Also governing bodies have big responsibilities but, being comprised of volunteers, only limited time. As a result some of their responsibilities will need to be delegated to management. Take the area of strategy for example. Although the governing body may be involved in shaping strategic plans and taking the final decision, much of the work developing the plan will often be done by management or staff. As a result the boundary between what the governing body does and what

management does can be quite blurred, and is likely to change as the organisation changes.

An important implication of this is that it is important for *the governing body and senior management to regular review how they work together* and consider how they divide up responsibilities and tasks. Getting the right balance between involvement and letting management get on with certain tasks can then be discussed and negotiated.

Who Governs?

How do people get to serve on a governing body? There are three main methods of selection. Some organisations are constituted as membership associations, where the governing body is *elected* by the membership of the organisation. In others new, governing body members are appointed by the existing governing body, what we will call *appointments*. In others external stakeholders may have the right to appoint some governing body members, what we will call *external appointments*.

The different methods of selecting governing body members have complimentary strengths and weaknesses, which are summarised in Table 2. Elections can promote participation and active involvement in the organisation. They may also enhance the legitimacy of the governing body through its democratic accountability. However, it can be difficult with elections to ensure the it has all the necessary skills and expertise. In contrast governing bodies that appoint their own members may be seen as self-serving and lack legitimacy, but the appointment process provides an opportunity to recruit people with the specific skills the governing body needs.

Table 2: A comparison of different method of 'selecting' governing body members.

Method of selection	Potential advantages	Possible weaknesses
Appointments	<ol style="list-style-type: none"> 1. Can select on basis of expertise and experience. 2. Can choose people to fill gaps in governing body skills. 	<ol style="list-style-type: none"> 1. Narrow, self-selecting governing body. 2. Lack of openness and accountability.
External appointment	<ol style="list-style-type: none"> 1. Can bring in external perspectives. 2. Can help increase external influence. 	<ol style="list-style-type: none"> 1. May lead governing body members to have divided loyalties. 2. Diversity may increase conflict and make it difficult to make decisions.
Elected	<ol style="list-style-type: none"> 1. Greater openness and accountability. 2. Greater legitimacy. 3. User/community empowerment. 4. Encourages active citizenship. 	<ol style="list-style-type: none"> 1. Governing body members may lack expertise. 2. Questionable representativeness because of low participation in elections. 3. Responsibility without expertise can lead to failure/disempowerment.

External appointments may help to bring in new perspectives and increase external influence, however, this method can lead to divided loyalties and governing body members may act in interests of the stakeholders that appointed them, rather than the organisation's interests.

An important implication of this is that *governing bodies need to keep their methods of recruitment and selection under review* and consider how they can address any weaknesses. For example, organisations with an elected governing body may want to use co-options to fill important gaps in skills and experience. Self-selecting governing bodies may reserve some places for important stakeholders, such as users. Alternatively they might want to set up other mechanisms, such as consultative forums, to make sure the views of users or other important stakeholders are considered. Open advertising and recruitment procedures can be used to bring in new perspectives and skills and make selection processes more open

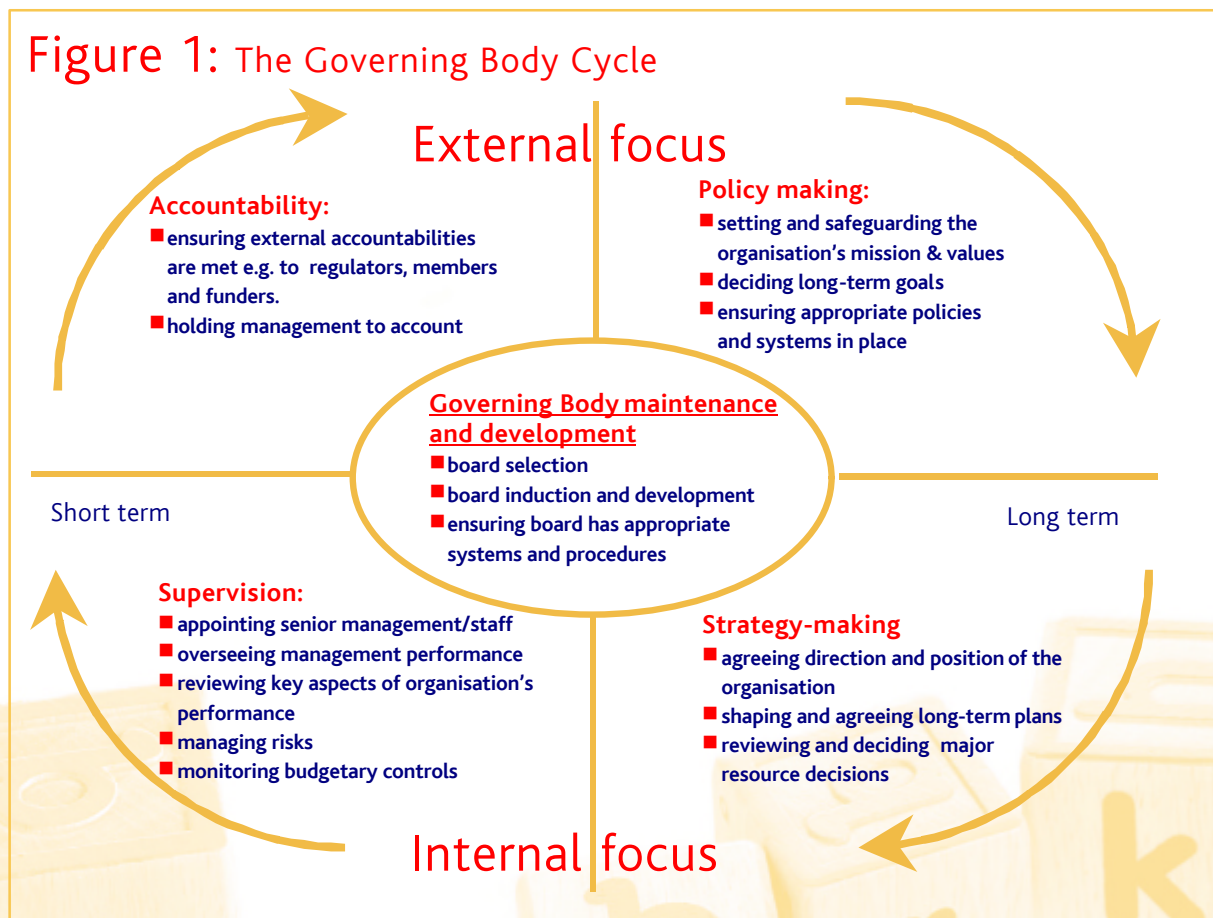
and transparent. In addition many organisations now provide induction, training and other forms of support to better equip new governing body members for their role.

The Governing Body Cycle

As discussed above governing bodies have a wide-ranging set of responsibilities and roles to perform. This can lead to role conflict, tension and misunderstandings. One way in which a governing body can help manage its different roles and the main tasks it needs to perform is through a structured annual cycle of meetings, see Figure 1.

The figure identifies the main functions of the governing body (accountability, policy-making, strategy-making, and supervision) and locates them on two dimensions, whether their focus is mainly external or internal to the organisation, and concerned with long or short-term issues. At the centre of the diagram is governing body maintenance and development, a

Figure 1: The Governing Body Cycle



function, which is central to all the governing body's other activities, but one, which is often neglected.

The governing body cycle shows how their activities can be structured throughout the year. It suggests that at the beginning of the financial year the governing body starts with *policy formulation* - reviewing the organisation's mission and values, agreeing long-term goals for the organisation and making sure it has the necessary policies and systems in place to carry out its work. This is followed by *strategy making* - devising a strategy to meet the organisation's long-term goals. This may take some time, and many organisations find it useful to hold an away-day or days where the organisation's strategy can be discussed away from the more routine activities

of governing body meetings. Once the strategy is in place the regular meetings of the governing body can focus on *supervision* - monitoring how the organisation and its management are performing, and taking action where needed. Finally, towards the end of the year the governing body will need to focus on *accounting* for how the organisation has performed and prepare for the annual report and accounts, reports to regulators and any Annual General Meeting.

Of course in reality the life of the governing body is never quite as orderly as this. The strategy may evolve over a number of meetings; policies concerned with functional areas, such as human resource management, may be reviewed and revised at different times in the year. However, the idea of the

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governing body cycle can be useful in helping to structure what boards do, and helping governing body members manage potential role conflicts by getting boards to focus on different aspects of their roles at different times.

Governing Body Maintenance and Development

At the heart of the cycle is the governing body's own maintenance and development. Given the many new and demanding challenges governing bodies face, this function is crucial. Yet, because governing body members maybe volunteers with limited time, and senior managers are busy people, there is a tendency for boards to focus

exclusively on the business in hand. As a result issues such as member training and induction, team-building or governing body development are often over-looked, to the detriment of its performance and governing body - management relations. Formally, it is the responsibility of the chair to ensure the maintenance and development of the governing body. In practice the chief executive is often better placed to ensure this happens. Consequently governing body effectiveness is likely to be enhanced if chairs and chief executives consider together their respective responsibilities for development and make sure this remains on the governing body's agenda.

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