# NPO GOVERNANCE PROGRAMME

## MODULE - II

## NPO GOVERNANCE & BOARD ISSUES

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# *Contents in Brief*

# Contents in Detail

*Chapter 1*

# UNDERSTANDING GOVERNANCE IN CONTEXT OF NPOs

## OWNERSHIP & GOVERNANCE OF NPOs

**1.1.1**    Not for Profit Organisations (NPOs) deal in public money for public utility purposes. However for legal and practical purposes the ownership of all funds lie with a group of people. In other words, NPOs are privately held and privately managed organisations for public purposes.

**1.1.2**    The NPO related law normally varies from country to country and ever within the country also there are various kinds of registration which permit different types of Board and Trustee structure. For instance a public charitable trust can be formed with two⋆ or more trustees who are permanent in nature. Such law belong to an era when charities were entirely based on the funds/assets bequeathed by a particular donor/ author. However, when such trust is registered for fund raising and donor based projects, it raises a serious question on the public ownership of the NPO. Similarly various other forms & registration also provide the

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⋆    In law there can even be a sole trustee, however for public trust the statutory authorities particularly the Charity Commissioner, Mumbai generally insists on min 3 trustees

possibility of the ownership being in the hands of a private group of persons. An NPO may work on resources generated through various sources; which could be private, public or government sources. The governance, accountability and need for transparency can be different depending on the type of resources used. However, the bottom line is that the NPOs are like public institutions even if they are created with private resources. Therefore, their management may be private in nature but it should possess all the elements of participation, accountability and transparency.

**1.1.3** NPOs also struggle in defining the role and responsibilities of the Trustees which results in a governance imbalance where the Board may swing from being dormant to overactive and interfering.

**1.1.4** The different forms of registration also create different ownership structures, For instance, under trust law there is no provision for General Body, but in case of a society there can be a General Body which appoints the Board.

**1.1.5** The diversity of skills and the ability of the Board members to assume and exercise authority also require careful support from the policies and rules. A good NPO should exemplify openness & transparency by having desirable criteria for selection and rotation of Trustees/Board Members.

## CONCEPTUALLY UNDERTANDING GOVERNANCE

**1.2.1** The word "governance" is of latin origin which means "to steer, guide, or direct." *Adrian Cadbury Committee Report*\* defined governance

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\* In 1992 Adrian Cadbury Committee submitted a report on Corporate Governance and the social responsibilities of corporate organisations. In this report the issue of effective and fair governance was raised internationally. Consequently, raising the quality and standards of corporate governance has been taken as a very serious issue throughout the world and lot of legal and managerial changes have come in order to ensure that the governance an organisations is just and fair to all stakeholders. In the NPOs sector similar efforts for reform are also underway.

as a system which directs and controls an organisation. An NPO is an artificial legal person and therefore, it is governed by various group of people having a very clearly defined role to play. *__The term goverance implies or refers to the mechanism which controls, directs and assumes the responsibility & accountability of all decisions and acts for effectively achieving the goals of an organization.__*

The *Wikipedia* defines Governance as :

> *"Governance is the act of governing. It relates to decisions that define expectations, grant power, or verify performance. It consists of either a separate process or part of management or leadership processes. These processes and systems are typically administered by a government."*

> *"In the case of a business or of a non-profit organisation, governance relates to consistent management, cohesive policies, guidance, processes and decision-rights for a given area of responsibility. For example, managing at a corporate level might involve evolving policies on privacy, on internal investment, and on the use of data."*

**1.2.2** To summarise Governance may be understood from the following characteristic which it should possess :

- It is the point or fulcrum of ultimate accountability.
- It involves the mechanism of control and directing an organisation.
- It ensures legally valid systems, structures and policies.
- It ensures ethics, fairness and transparency to all stakeholders.
- It, ideally, should be constituted through a participative process of shared ownership.
- It effectively leads the organisation towards its short term and long term goals and objectives.
- It fulfills the statutory & other legal obligation of the organisation.

## IS GOVERNANCE OF NPOs DIFFERENT

**1.3.1**     The term Governance is of distinct importance in case of NPOs. An NPO works for public purposes, However, the funds and resources it uses are bequeathed for public purposes even if they are created from private sources. Therefore, there is no concept of individual ownership or individual gain. The persons, who control or manage an NPO work as trustees. As a matter of fact, a registered society or a trust itself is a trustee and is working in fiduciary capacity. In such circumstances, the governance of an NPO should exemplify greater amount of integrity, transparency and participativeness. The Wikipedia further defines Non-profit governance as :

> *"Non-profit governance focuses primarily on the fiduciary responsibility that a board of trustees (sometimes called directors—the terms are interchangeable) has with respect to the exercise of authority over the explicit public trust that is understood to exist between the mission of an organization and those whom the organization serves"*

**1.3.2**     In case of NPOs, the term governance is about holding and executing a public trust. It is about fulfilling the expectations of the beneficiaries and stakeholders in the most effective way. In this sense the term governance is far more important in case of an NPO, compared to private companies. In case of private companies the governance lapses may primarily result in losses to share holders, but in case of NPOs any lapse in governance will result in a breach of public trust and may cause unforgivable detriment to the public causes for which the NPO exists.

## GOVERNANCE IS LIKE
## OPERATING A MACHINE

**1.4.1**     Sound governance can only exist if it is in a position to satisfy the canons of optimum and fair existence. Governance may be compared to

the operation of a large machine or a vehicle. In a large machine or a vehicle, the engine or the gear box might be the most important component. However, the importance of the engine or a key organ can be singled out only when the machine is not working. The moment the machine or vehicle is running ,then even if a small screw is not functioning properly it will be at the risk of a break down. Therefore, each component is of paramount importance in a running system. The same applies to the governance of any organisation, one has to ensure that even the smallest or the remotest aspect or function is working with equal sense of ownership, integration and committment. This is the challenge and art of governance which each organisation has to internalise and customise keeping in view the needs and aspirations of all stakeholders.

## WHEEL OF SOUND GOVERNANCE

**1.5.01**    An indicatory wheel of governance is provided in *diagram 1.* A sound governance system should aspire and ensure the following :

- *Accountability & Transparency :* Any organisation or individual should not only be responsible for its activity and existence, but it should also be accountable. The governance structure and decision making processes should also be transparent and accessible to various stakeholders.

- *Compliances of Law & Obligations :* All organisations should ensure that all the applicable legal statutes and regulations are complied with on time. Further all contractual obligations and the requirements of the trust deed, bye laws, policies is also complied with.

- *Empowerment Stakeholders Participation :* The governance of an organisation should be enabling and empowering in nature for the stakeholders. In NPOs the participation and empowerment of marginal stakeholders such as beneficiaries, junior employees, general members is of utmost importance.

**DIAGRAM - 1**

**WHEEL OF SOUND GOVERNANCE**
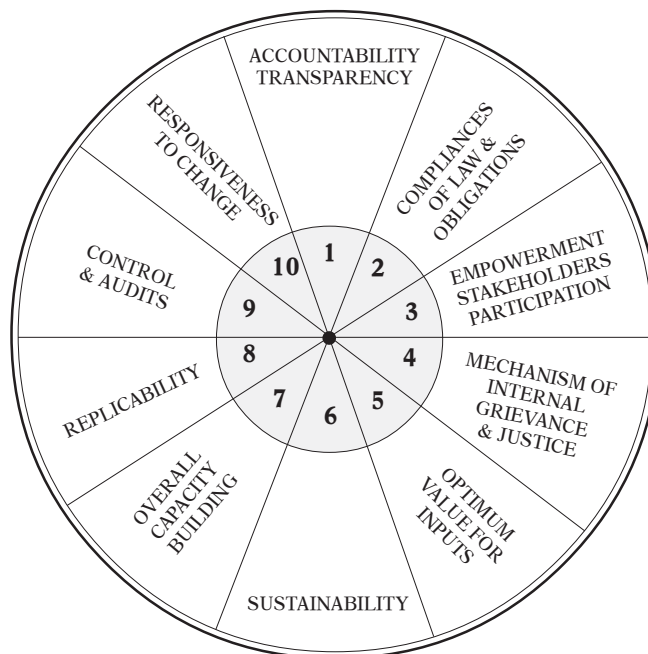


- *Mechanism of Internal Grievance & Justice :* A sound governance system should ensure that there is an independent and unbiased mechanism for grievance redressal. A governance system should include three aspects; legislative, executive and judicial. Normally the judicial or grievance redressal is weak in case of NPOs.

- *Optimum value for Inputs :* It is the duty and responsibility of a good trustee to ensure that all the funds and resources are utilised in the best possible manner towards the objectives of the organisation.

- *Sustainability :* Sustainability of an organisation in terms of financial needs, programmatic relevance, leadership, manpower etc. should be ensured.

- *Overall Capacity Building :* Good governance system should ensure that the people involved; both the board and employees are capacitated on a regular basis to keep them updated with the ever changing environment.

- *Replicability :* Any good programme or activity should be replicable and the capable of being taken forward by a large number of stakeholders.

- *Control & Audits :* A governance system should ensure adequate checks and balances both in terms of internal control & audits and also in the form of independent external auditors, advisors, evaluators etc.

- *Responsiveness to Change :* An organisation should be responsive to change both in terms of its system and activities in order to remain relevant and effective in the changing environment.

## SELF ASSESSMENT QUESTIONS

1.  Provide a conceptual background of the term 'Governance' and also explain how it is different in context of NPOs ?

2.  What are the important issues which a sound governance system should address, in other words explain wheel of sound governance ?

*Chapter 2*

# DOES GOVERNANCE MEAN ABSOLUTE POWER

## GOVERNANCE IMPLIES ACCOUNTABLE POWER

**2.1.1** The people responsible for governance denote the ultimate point of accountability and power to control. The question arises whether governance implies absolute power to do anything. However, in NPO the power to govern does not imply unfettered or indiscriminate power at the hands of the board of trustees. The legal as well as systemic design of a governance structure should be such that nobody enjoys any unfettered or indiscriminate power. However, to avoid that the possibility of misuse of power, certain statutory provisions are as follows :

- there are legal checks and balances in some statutes such as in the Societies Act or the Companies Act. For instance if the board members become autocratic, then the general members can remove and reconstitute the board. However, such provision are not there in case of a Trust. In such cases, the Trust deed becomes an important document through which the powers of trustees *vis-a-vis* other stakeholders can be controlled. Further, it could be structured in the trust deed that the board of trustees delegate the governance the governance functions to an Executive Committee and themselves function as equivalent to General

Body. In case of a society, also, it is important to ensure the existence of a slightly large general body which will have the capacity to control the board from any misuse of power.

- The power exercised by the board are generally drawn from the general members and stakeholders. Therefore, the group of persons who exercise power  or are at the helm, are also accountable. For instance, the board has to take approval of the general body in the following circumstances :

    i)    Approval of audited accounts

    ii)   Amendment in Bye-laws or objects

    iii)  Election of office bearers etc.

    iv)   Important issues as may be specified in the Bye-laws.

**2.1.2**    The above instances illustrate few statutory areas of governance which make the powerful bodies such as the 'Board' or 'Trustees' accountable to the general member, thus limiting their power.

## SOME OTHER LEGAL CONTROLS

**2.2.1**    Various statutes and laws of the land also ensure that the powers at the hands of the person controlling organisation are being used responsibly and effectively. Some instances are as under :

- The remuneration paid to trustees and board members is required to be declared under the Income Tax Act.

- All major decisions are subjected to transparent processes which are recorded through minutes and evidences. In other words, persons have to take the legal ownership of the decision and the actions.

- The funds and resources of an NPO cannot be used for the personal benefit of any interested person.

- The income of an NPO cannot be distributed directly or indirectly to any interested person.

- There are legal restriction on administrative expenses.

- There are disclosure requirements under various statutes;

    (i)     under FCRA organisation having more than 1 crore income have to display there financial information in public domain.

    (ii)    financial and programme related statements have to be filed to various authorities and donors.

    (iii)   modes of investments are restricted under FCRA and Income Tax Laws, earlier the Board Members could invest the resources of organisation in related party entities belonging to friends and relatives.

## THE RELEVANCE OF POWER DYNAMICS WITH THE NATURE OF AN NPO

**2.3.1**    Sometimes the structure of an NPO deliberately provides absolute and permanent powers to a group of 2 or 3 people. For instance, a person may donate his wealth for public purposes by creating a public trust. The person may further provide in the trust deed that three of his children or relatives will be the permanent trustees. In this case, the trustees will have absolute and permanent powers of decision making. Such governance structure might be acceptable for NPOs created for a specific purpose based on a specific source of wealth. Such NPOs can be said as Special Purpose Vehicle (SPV) created by a private entity. However, if such SPV or specific trust starts raising funds from public at large, then the structure of governance becomes a matter of concern.

**2.3.2**    The donor agencies and the contributing stakeholders should make a due diligence regarding the closely held structure and the

autocratic nature of a trust before initiating any partnership. All NPOs which access funds from public at large should have a more transparent and democratic governance structure.

## THE ISSUES WHICH MAY RESULT IN MISUSE OF POWER

**2.4.1** The registration of NPOs and the governance structure is not under any central controlling authority. The NPO sector remains diverse and unregulated both from within and outside. Some areas of concern regarding the power to govern are as under :

- As discussed above, a public trust with a small group or permanent trustees remains an area of concern if such trust is working with public money. Such models are only acceptable for **SPVs** created with private and specific sources of funds.

- In case of a society there is normally no requirement for a large general body. Technically a society can have same number of people in the board as well as the general body. For instance, a society may have a 12 member board and general body may also comprise the same set of persons. There would be no legal violation in such a governance structure, but there would be no checks and balances over the board members. Ideally general body should be, at least, more than two times the size of the board so that the board members do not have a majority voting power in the general body.

- An NPO registered as a society can also be legally constituted with only 2 - 3 board as well as general body members, which reflects a closely held organisation.

- There could be various kinds of board structure, which may result in usurping of power by few individuals. Various models of board are discussed in *Chapter 8*.

## SELF ASSESSMENT QUESTIONS

**1.** Explain why 'governance' does not imply absolute power ?

**2.** What are the constitutional and legal checks & balances available for rationalisation of power ?

**3.** What are the which may result in misuse of power by the board or controlling authorities ?

*Chapter 3*

# STATUTORY OR *DE JURE* OVERVIEW OF GOVERNANCE

## TECHNICAL OVERVIEW OF GOVERNANCE IN A NPO

**3.1.1** *Adrian Cadbury Committee Report*\* defined governance as a system which directs and controls an organisation. An NPO is an artificial legal person and therefore, it is governed by various group of people having a very clearly defined role to play.

**3.1.2** All registered voluntary organisations are a distinct legal entity and therefore an artificial legal person. It may be noted that a trust is not considered as legal person under the general law and the trustees collectively are recognised. However, for income tax and FCRA purposes a trust is also considered as a legal entity. The legal status of an organisation comes with legal obligations such as :

      i)      Statutory audit of accounts

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\*    In 1992 Adrian Cadbury Committee submitted a report on Corporate Governance and the social responsibilities of corporate organisations. In this report the issue of effective and fair governance was raised internationally. Consequently, raising the quality and standards of corporate governance has been taken as a very serious issue throughout the world and lot of legal and managerial changes have come in order to ensure that the governance an organisations is just and fair to all stakeholders. In the NPOs sector similar efforts for reform are also underway.

ii)   General & Board Meetings

iii)  Filing of Returns

iv)   Adhering to the Bye-laws

v)    Area of operation

vi)   Election of office bearers etc.

vii)  Working only for the definite objectives

**3.1.3**   The above mentioned are some of the *de jure* aspects of the governance system of a voluntary organisation. An organisation  has to complement and add upon these aspects to build a sound governance system, keeping in view the size and the nature of the activities. The flow chart on the next page depicts an overall picture of various person/committees which go on to build an effective governance system.

**3.1.4**   All NPOs are accountable to the laws under which they are enacted and avail subsequent registration. Some of such statutes in India are :

i)    Societies Registration Act, 1860 (along with state enactment)

ii)   The Companies Act, 1956 (for Section 25 company)

iii)  Income Tax Act, 1961

iv)   Foreign Contribution Regulation Act, 2010

v)    Various others statues as and when applicable.

## FLOW CHART SHOWING THE ORGANISATIONAL STRUCTURE

**3.2.1**   A flow chart showing the organisational structure is provided in *diagram 2.*

**DIAGRAM 2**

**FLOW CHART SHOWING THE
ORGANISATIONAL STRUCTURE**

VOLUNTARY
ORGANISATION
IS A LEGAL
ENTITY

GENERAL
BODY — The legal owner and the apex body which
determines and controls through the
board various legislative and executive
functions.

THE BOARD — The body which is legally accountable for
the legislative and executive functions.

Statutory
Auditor

External
Consultants/
Evaluator

CEO/Chief
Functionary
And Staff
members

Internal
Auditor

Advisory
Committees

Donor

Government
Departments

Alliance
Partners

Community

## GENERAL BODY AND ITS IMPORTANCE

**3.3.1**     General Body is the ultimate body which regulates and controls the entity through the Board. A General Body is like the people of a democratic country who can determine or replace the parliament, but cannot assume the functions of the parliament. General Body constitutes and reconstitutes the Board and keeps control over certain statutory issues and key functions of the Board. Major legislative and statutory decisions are taken by the General Body, however, all key issues are normally recommended by the Board for the approval of the General Body.

**3.3.2**     Important and statutory nature decisions are taken at the General Body  level. Some of such decisions could be as under :

      (i)    Appointment of Auditor

      (ii)   Election of Office Bearers

      (iii)  Amendment of bye-laws

      (iv)  Purchase of large properties, etc.

      (v)   Approval of Annual Activity Report.

      (vi)  Such other decision  as may be provided in the Memorandum of Association

**3.3.3**     The general members play a very effective role in the governance of an organisation. A large and empowered General Body can only ensure that the organisation functions on democratic principles. Many organisations have a very small General Body or even a co-terminus committee i.e. both the Board and the General Body comprise same set of persons. Such organisations do not reflect sound democratic structure of governance.

## GENERAL MEMBERS

**3.4.1**     The NPOs registered under the Societies Registration Act or

under the Companies Act or any other law which prescribes both the General Body and the Board, should ensure that there is a transparent & appropriate policy regarding general members and general meetings.

**3.4.2**    The General Body should be the body of general members with equal voting rights. The membership should be open to all section of stakeholders. The size of the General Body is determined by the nature of NPOs work e.g. generally movement based NPOs have larger General Body. However, normally the size of General Body should vary between 15 to 50 members. The General Body should always be larger than the Board, ideally 3 times or more the size of the Board.

## LEGISLATIVE & EXECUTIVE FUNCTIONS

**3.5.1**    A legislative body or function generally pertains to something legal or statutory in nature. In a country, the parliament is the legislative body and the bureaucracy generally implements or executes the legislations passed by the parliament. However, in context of a NPO a legislative body does not imply creating statutory legislations which in any case are binding on everybody. The legislative functions imply creating legislations and policies for the organisations which may or may not be statutorily required by the law of the land. Some legislative documents of an NPO are :

-   Memorandum of Association

-   Articles of Association

-   Various policy documents

-   Various resolutions passed by the General Body and Board etc.

**3.5.2**    The General Body is the highest body for legislative decisions and the Board is the highest body for executive decision making. However, for all practical purposes both the Board & Executive decision making

body functions are held by the Board, though certain key and statutory legislative decisions are approved by the general members only. The legislative functions cannot be delegated, they include :

- Legal compliances

- Custodian of assets and functions

- Amendment and Compliance with the stated Memorandum of Association, Trust Deed etc.

- Compliance with the stated Articles of Association, By laws etc.

- Laying down policies and norms of execution.

**3.5.3** The Board is also responsible for effective and optimum execution of all the activities and responsibilities of the NPO. Normally the management team headed by the CEO is delegated the executive functions. The Board plays an oversight role in the execution. The Board delegates the executive functions depending on the size of the NPO and operations. In very small organisations, the Board may play a more proactive role in the execution/implementation. However, it is generally expected that the Board should play the role of controlling and directing the various activities and processes without itself being involved in the direct execution.

## GRIEVANCE & JUDICIAL FUNCTION

**3.6.1** The governance structure, as per the registration, provides the legislative and executive powers to the Board. However, inherently the Board also posseses judicial or conflict resolution powers which are generally not very well articulated in the statute or bye laws.

**3.6.2** All accountable NPOs should have a conflict resolution and grievance mechanism within the organisation. It could be through constitution of 'grievance committees'. However, it has to be ensured that

all employees and stakeholders have an equal opportunity before such committees. For example, if the complaints are against the CEO or any Board member then there should be a mechanism in place to ensure a fair trial to the complainant.

## CLOSELY & WIDELY HELD NPO

**3.7.1** When an organisation has a Board of less than 7 members and General Body of less than 12 members for long periods, (say 7 years) it can be considered as a closely held organisation. A closely held organisation is legally permissible, However, such structures are generally created when a corporate, family or group of people create a NPO for public purposes from their internal properties and funds. A NPO which accesses donations and grants from organisations and public at large should not be closely held by a small group of people.

## EXECUTIVE LEADERSHIP & LEGISLATIVE LEADERSHIP

**3.8.1** A good governance structure should maintain a clear distinction between executive leadership and legislative leadership. The examples of such distinctions are :

- The Chairman should not be the Executive Director or CEO
- The employees should not have an influencing impact on the Board decision making.

## DIFFERENCE BETWEEN A CEO & GENERAL SECRETARY

**3.9.1** A General Secretary of a NPO is the legal representative of the Board as far as its legislative functions of are concerned. The General

Secretary may or may not retain the executive functions. A CEO is the highest executive position and it does not possess legislative powers.

**3.9.2** The General Secretary is an integral part of the Board of a NPO. A CEO may or may not be provided an *ex-officio* position on the Board as the representative of the employees responsible for execution and implementation.

## ADVISORY COMMITTEES

**3.10.1** The Board is normally supported by advisory committees which consists of members possessing specialised expertise and mandate. An organisation may have, for example, committees on finance, purchase, specific programme, etc. Certain NPOs also have advisory Boards which are independent and external.

## SELF ASSESSMENT QUESTIONS

1. Provide a technical overview of the governance in an NPO.
2. What is a general body and why it is important ?
3. Who are general body members and why they are important ?
4. What is distinction between legislative and executive functions ?
5. What do you understand by Grievance and Judicial Function ?
6. What do you understand by closely & widely held NPO ?
7. What is distinction between Executive and Legislative leadership ?
8. What is distinction between CEO and General Secretary ?

*Chapter 4*

# STATUTORY OR *DE JURE* OVERVIEW OF BOARD

## THE BOARD & ITS IMPORTANCE

**4.1.1** The Board happens to be the *a de june* most powerful body of an organisation and in the absence of an effective Board it is very difficult to ensure good governance in any organisation. The Board is legally accountable for the legislative and executive functions. The Board is responsible for determining all the policies, systems and processes. The Board is also responsible for the safe guard and optimum utilisation of the funds, assets and resources. All decisions of enduring nature are taken at the Board level and the Board delegates authority and responsibilities to the CEO and other managerial persons.

## BROAD FUNCTIONS OF THE BOARD

**4.2.1** The following are the broad functions of the board of an organisation :

- ◆ Being the employer

- ⬥ Formulating & Monitoring the Governance Structure.
- ⬥ Formulating policies.
- ⬥ Securing & Safeguarding Resources
- ⬥ Being the Final Point of Accountability
- ⬥ Being a link between external stakeholders and environment
- ⬥ Ensuring legal compliances and other contractual obligations

## ROLES & RESPONSIBILITIES OF BOARD

**4.3.1** The Board should formulate the mission statement & strategic plan of the organisation and should revisit periodically in order to ensure that the programmes and resources are in consonance with them.

**4.3.2** The Board should formulate the structure of authority and responsibility to be delegated to the CEO and other staff.

**4.3.3** The Board should determine the procedure of electing/selecting the CEO and the compensation thereof.

**4.3.4** The Board should formulate important policy documents and guidelines on gender, human resource, finance etc.

**4.3.5** The Board should appoint the statutory auditor and the internal auditor if required. Both the auditors should directly report to the Board. The appointment of statutory auditor should be finally approved by General Body on recommendation of the Board.

**4.3.6** The Board should determine and approve the annual budget and allocations.

**4.3.7** The Board should determine and approve the bank accounts to be operated and the signatories thereof.

**4.3.8**    The Board should develop proper policy and systems regarding the title, safeguard, location and verification of fixed assets.

**4.3.9**    The Board should ensure strict adherence with all statutory compliances. It should also ensure that requirements/obligations towards other stakeholders is diligently done.

**4.3.10**    The Board should constitute Advisory Committees for special functions or for specific purposes.

**4.3.11**    The Board should review the performance of the CEO and other senior management staff on annual basis.

**4.3.12**    The Board should prepare a position paper every three years on issues such as (i) Resource Mobilisation (ii) Financial and Institutional Sustainability, (iii) Programmatic relevance, reach and impact, (iv) Risk and contingencies.

**4.3.13**    The Board should carefully position its involvement in the management of the affairs of the organisation. Generally the Board should not be interfering in nature, however, certain powers of approval should be retained by the Board depending on the size of the NPO. A suggested list of the additional functions of Board could be as under :

- approval of projects and activities to be undertaken
- periodical perusal of the reports from the Secretary/CEO and other key functionaries
- approval of purchase of assets for large financial transactions
- approval of project budgets and investments
- finalising annual financial statements
- staff capacity building measures
- appointment of staff
- internal control measures

- resource mobilisation, etc.
- control over admin. expenses
- corpus and institutional sustainability

## COMPOSITION OF THE BOARD

**4.4.1**    The Board should be ideally between 5 to 13 members unless the legal requirements are different.

**4.4.2**    The Board should, normally, not have members who are permanent in nature except the case of institutional nomination. In case of a trust, normally a clause regarding permanent trustees is found. In such instances, it is desirable that the total voting right of the founder trustees is less than 50%.

**4.4.3**    The composition of the Board should be clearly defined in terms of the diversity of the skills required for discharge of the Board functions. The balance of the Board should be maintained in terms of gender, finance & other specialised skills, stakeholders, distance & availability.

## PRESENCE OF EMPLOYEES ON THE BOARD

**4.5.1**    Not more than 2-3 employees should be Board members with voting rights or at any point the employees participation should not exceed 40-50% of the Board members. If two or more employees are on the Board then they should not be relatives. The main issue is to keep the Board independent of the execution functions. If people involved in execution and implementation are dominating the Board, then the Board shall cease to be an independent body.

**4.5.2** In the context of the issue of employees on Board, it is generally misunderstood with participation of employees on Board as a stakeholder. However, this issue is much larger than inviting representatives from the employee fraternity on Board. This issue is about the presence of members who are compensated for the services rendered on whole time basis. Such members could be :

- Representatives of employees who become Board member by virtue of being an employee.

- Elected Board members who are in whole time service in terms of the bye laws.

- Pre-defined executive heads like CEO or ED who find an ex-officio position in the Board.

**4.5.3** One or more of the above circumstances may be relevant depending on the bye laws and governance structure of the organisation.

**4.5.4** It may be noted that the sum total of all such Board members should not have any material influence on the decision making of the Board. Further there should be a clear & written policy on conflict of interest where trustees and staff (or any stakeholder) are involved.

## ELECTION/SELECTION OF THE BOARD MEMBERS

**4.6.1** There should be a clearly defined policy for recruitment, election, selection of trustees or Board members. The induction of new trustees should be through an open process providing the opportunity of being elected/selected to a wider group of stakeholders. The process should include use of methodologies such as advertising for new trustees through various medium.

**4.6.2** The Board members should retire and be re-elected on the basis

of rotation. For instance, every two years a third of the Board can retire. Though the Board members usually get re-elected but the technical possibility of replacing the entire Board in an election process should be avoided.

## BOARD PROCESSES

**4.7.1**    There should be a process for orienting and sensitising of the trustees regarding their responsibilities in particular as well as in general.

**4.7.2**    There should be a process through which clear distinction between strategic matters and operational matters should be made and a position paper should be drafted and revisited annually.

**4.7.3**    The Board should set key performance indicators for themselves.

**4.7.4**    The Board should, ideally, meet once in every quarter, However, it is recommended that the Board should meet at least twice in a year i.e. once in every six months.

**4.7.5**    An annual report on the participation and other contributions of the Board members should be prepared to assess the stakes and ownership of the Board members.

## PERMANENT OR LONG
## TERM BOARD MEMBERS

**4.8.1**    As discussed in the above para ,organisations should not have a majority of long term or permanent Board members unless it is privately funded.

**4.8.2**    The name and percentage of trustees or Board members who have served for more than 15 years on the Board either continuously or through intermittent tenures should be separately declared.

## CEO & MANAGEMENT STAFF

**4.9.1**    The CEO and staff members are responsible for the day to day management of the organisation. The CEO happens to be the focal point around which the entire organisation revolves. He is the executive head of the organisation. The CEO generally does not possess legislative powers. The CEO interacts with most of the stakeholders such as donors, alliance partners, communities and also with the Board etc.

## CONFLICT OF INTEREST

**4.10.1**    There should be a clearly defined policy to ensure that any conflict of interest is properly dealt with. The issues which may be regarded as material interest are as under :

- Appointment of relatives in Board or senior management.
- Ownership or partial ownership in organisations which are engaged  or may seek business or consultancies.
- Payment of fees and remuneration.
- Directorship or management position in other NPOs.
- Providing consultancies in personal capacities.
- Having commercial interest in any decision or resolution.
- Having direct or indirect relationship with the donor or donee organisations.
- When contracts are awarded to relatives of the Board members.

**4.10.2** The Board of Directors of the trustees should declare such interests. The interested trustees and directors should not participate in the decision making and voting process for that particular resolution. An annual declaration of such interests should be placed in the annual general meeting.

## INDEPENDENT DIRECTORS

**4.11.1** The term 'independent director' is more relevant in the corporate world. In the voluntary sector, most of the directors are in any case expected to be independent. Clause 49 of the listing agreements on corporate governance defines independent directors as follows: *"For the purpose of this clause the expression 'independent directors' means directors who apart from receiving director's remuneration, do not have any other material pecuniary relationship or transactions with the company, its promoters, its management or its subsidiaries, which in judgment of the Board may affect independence of judgment of the directors."*

**4.11.2** The non-executive independent directors are not supposed to receive any financial consideration except the sitting fees.

**4.11.3** In case of NPOs, all the directors are not supposed to take any kind of benefit or privilege from the organisation. Therefore, in letter and spirit all the directors in case of NPOs are independent in nature. However, as a concept it needs to be ensured that the directors or trustees are not enjoying any undue benefit or are not involved in any conflict of interest transaction. One of the ways of keeping the independence of the Board is to have a well articulated 'conflict of interest' policy.

## EX-OFFICIO BOARD MEMBERS

**4.12.1** The memorandum of association of the society can be suitably drafted so as to have provision regarding *Ex-officio* Board members. An *Ex-officio* Board member denotes the right of a particular formal position

holder to participate and vote in the Board proceedings. For instance, an NPO may provide that the District Magistrate will be one of the Board members, then who ever is the District Magistrate will automatically have the right of a normal Board member.

## SELF ASSESSMENT QUESTIONS

1.  Write briefly on Board of NPOs and its importance ?
2.  What are the functions, rules & responsibility of the board members ?
3.  Write briefly on composition of the Board ?
4.  Write briefly on issues involve in having employees on the Board ?
5.  Write briefly on election/selection of the Board ?
6.  Write briefly on permanent or long term Board member ?
7.  Distinguish briefly the board from the CEO & Management staff ?
8.  Write briefly on Conflict of Interest ?
9.  Write briefly on Independent Director ?
10. Write briefly on Ex-officio Board members ?

*Chapter 5*

# FRAMEWORK OF NPO GOVERNANCE

## OVERVIEW OF GOVERNANCE FRAMEWORK

**5.1.1** The governance structure of NPOs should be meticulously devided into broad areas and under each such areas appropriate systems, strategies and policies should be formal. The broad areas which require the support and attention of a well articulated governance structure are as under :

- ◆ Vision & Mission (Aspirations & objectives).
- ◆ Structuring and Management of Human Resources.
- ◆ Designing an Organisational Structure.
- ◆ Structuring and Designing the Board Processes.
- ◆ Designing and Creating systems and Infrastructure.
- ◆ Ensuring organisational competence & Skills.
- ◆ Ensuring organisational ethics and culture.
- ◆ Structuring organisation's memory & documentation processes.
- ◆ Risk Management.

**5.1.2** The above areas around which a governance structure is required to be created are discussed in detail in succeeding chapters.

## SELF ASSESSMENT QUESTION

1.      Provide an overview of governance framework in an NPO.

*Chapter 6*

# VISION & MISSION OR ASPIRATIONS & OBJECTIVES

## INTRODUCTION TO VISION & MISSION

**6.1.1** A mission statement provides the purpose of an organisation's existence, it tells about the current and potential activities of the organisation. It is like a yardstick for guiding the organisation. On the other hand a vision statement talks about the distant dreams of the organisation. It lends the ultimate goal and purpose to a mission statement. For example, the vision may be to see each and every child in the country happy and healthy. The mission can be to provide nutrition and medicines to one million children every year. **A vision statement normally inspires and motivates and a mission statement reminds of the incomplete journey and the immediate steps to be taken.**

**6.1.2** It should also be remembered that a vision statement is a static and unwavering statement or a resolve taken by an organisation. On the other hand, a mission statement is something non static, live, flexible and realistic steps or strategy towards the vision. A mission statement may keep on changing depending on the changing reality and circumstances. However, a vision statement normally does not change until it is accomplished.

## VISION OR THE ASPIRATIONS

**6.2.1**     The vision of an organisation reflects the dream or the aspirations, it is about the horizon or the distant goal which the organisation is longing for. For example, an organisation may have a vision that nobody should sleep hungry on this earth, or it may have a vision that everybody on earth should have access to clean and hygenic water.

**6.2.2**     Another way of defining vision is the articulation of the changes which the organisation wants to bring to the world. For example, an organisation may have the vision that the child mortality rate should be reduced to zero, one day.

**6.2.3**     A vision may also be idealistic in nature, for example, an organisation may have a vision of a truthful world where the crime rate is zero.

**6.2.4**     An organisation may have a relatively modest vision. For example, it may have a vision of 100% literacy in five districts of its operation. When a vision becomes more modest and realistic, it comes closer to the mission of the organisation.

**6.2.5**     A vision statement is like a realistic utopia for the organisation. It is the proverbial point where the organisation will attend its actualisation or the ultimate goal.

## CHARACTERISTICS OF A
## GOOD VISION STATEMENT

**6.3.1**     A vision statement is like a painting where the viewer should be in a position to see the dream and aspiration of an organisation. Therefore, it should be short and specific in the sense of clarity.  A vision statement

should not be totally unrealistic and at the same time should not be too modest. For example, having a vision about a world where there is no distinction between rich and poor everybody is having absolutely equal share of everything is too idealistic and unreal in nature. On the other hand, having a vision that, all children in a city should have access to computer education, is too modest in nature.

**6.3.2**    A vision statement should be broad enough to incorporate various changes in the mission statements which might be required in the course of its existence.

**6.3.3**    A vision statement should be holistic and should share the vision of all the stakeholders. It should generate a collective value and inspiration amongst all the stakeholders involved in the process.

**6.3.4**    Vision statement should be inspiring in nature, it need not necessarily be a objective indicator of the aspirations.

**6.3.5**    Some examples of vision statement are as under :

- The vision statement of Financial Management Service Foundation (FMSF) is *"We aspire for a reality in development co-operation where there will be overall and wholistic accountability among all the constituencies"*

- The vision statement of Give India is *"A strong "giving" culture where Indians donate 2% of their income every year to give the poor a chance. A vibrant "philanthropy marketplace" to ensure that the most efficient and effectivenonprofits get access to the most resources."*

- The vision statement of International Committee of the Red Cross (ICRC) is *"ICRC is an impartial, neutral and independent organization whose exclusively humanitarian mission is to protect the lives and dignity of victims of armed conflict and other situations of violence and to provide them with assistance. The*

*ICRC also endeavours to prevent suffering by promoting and strengthening humanitarian law and universal humanitarian principles."*

-   The vision statement of Lions Club International is *"to be the global leader in community and humanitarian service."*

## MISSION OR THE JOB AT HAND

**6.4.1**    A mission statement provides the purpose of an organisation's existence, it tells about the current and potential activities of the organisation. It is like a yardstick for guiding the organisation. A mission statement should explain why and what for an organisation is existing.

**6.4.2**    A mission statement articulates the steps which the organisation is taking to realise its vision. A mission statement is more practical, objective and current in nature.

**6.4.3**    A mission statement should provide an outline of how the NPO proposes to serve its beneficiaries, stakeholders and reference community.

**6.4.4**    Mission statement provides the broader contour of the organisation's journey reminding the management, continuously, what they are supposed to do. In other words, it crystallises the purposes of the organisational acts, therefore, it also defines what not to do. For example, when a shooter is aiming to hit 100 out of 100 shots at the target at the Olympic event, the mission is to hit 100 out of 100 shots in all the practice as well as actual matches, however, the vision is to win a Olympic Gold Medal for the Country.

**6.4.5**    To sumup, the mission helps the organisation to remain focussed on its vision and keeps on propelling it towards the vision in a pre-determined and well conceived road map to the destination.

## CHARACTERISTICS OF A
## GOOD MISSION STATEMENT

**6.5.1** A mission statement is like a road map where the traveller should be in a position to see the immediate and ultimate journey of an organisation. Therefore, a mission statement should be short and focussed about the purpose of existence and steps to be taken.

**6.5.2** A mission statement need not be specific in terms of numbers or target.

**6.5.3** A mission statement should always be very realistic, objective and achievable. A mission statement needs to be broad based and internalised from the perspective of all the stakeholders.

**6.5.4** The mission statement is not static in nature like a vision statement. It is live and organic in nature. In other words, a mission statement should be responsive to the internal and external environment. For instance, the mission of an organisation may be to bring about legislative changes for the benefits of its target group. Then such mission statement may have to be reworked with the changes in the legislation of the country.

**6.5.5** A mission statement should be revisited by the management every 3 to 5 years, to assess its relevance and appropriateness in context of the vision and the changing environment.

**6.5.6** Some examples of mission statement are as under :

- The mission statement of Google is *"to make the world's information universally accessible and useful."*

- The mission statement of Lions Club International is *"to empower volunteers to serve their communities, meet humanitarian needs, encourage peace and promote international understanding through Lions clubs."*

- The mission statement of Financial Management Service Foundation (FMSF) is *"FMSF is a resource organization which seeks to promote accountability in South Asia by Enhancing the capacity of partners and development stakeholders in financial management & Governance. Advocating Social Accountability through networking and influencing policies. Research & Information Dissemination."*

- The mission statement of Give India is *"GiveIndia's mission is to promote an efficient and effective giving culture that provides greater opportunities to the poor in India."*

## SELF ASSESSMENT QUESTIONS

1. What do you understand by vision of an organisation articulate with examples ?

2. What do you understand by mission of an organisation articulate with examples ?

*Chapter 7*

# OVERVIEW OF HUMAN RESOURCES IN AN NPO

## INTRODUCTION

**7.1.1**    Human resources are the most important assets or factor in the existence and sustenance of an NPO. However, more often than not the human resources are ignored and deprived of the importance and the attention they deserve.

**7.1.2**    Our legal and financial statements also do not reflect the wealth of human resources an organisation possesses. This is a big limitation of our financial and other reporting statements. However, one may argue that human resources are invaluable and they should not be quantified in financial terms.

**7.1.3**    Quantifications apart, a sound governance structure should design and ensure a balanced distribution of power, authority and responsibility in the various types of human resources engaged in an organisation. In this chapter we shall discuss in brief the various types of human resources and the governance issues thereof.

## TYPES OF HUMAN RESOURCES

**7.2.1** There are 6 broad categories of human resources which are integral to the existence of an NPO. They are :

- ⬧ The General Members
- ⬧ The Board or the Trustees
- ⬧ The CEO & Management Team
- ⬧ The staff and volunteers
- ⬧ The auditors, advisors, evaluators etc.
- ⬧ The beneficiaries

**7.2.2** All the above categories of human resources are integrally related with the regular functioning of an NPO. It may be noted that the human resources discussed above have been considered distinct from their capacity as a stakeholder. Stakeholders may also include the donors, government, community at large etc. Some of the stakeholders do not engage at individual and personal level in the functioning of an organisation. Therefore, the stakeholders who engage or are related at individual and personal level in the functioning of an organisation are considered as vital human resources.

**7.2.3** A sound governance structure should empower all the human resources involved in the functioning of the organisation. In the following paras the various kinds of stakeholders and the ways of their involvement and participation, in the governance process, has been discussed.

## THE GENERAL MEMBERS AS A
## PART OF THE GOVERNANCE PROCESS

**7.3.1** The NPOs registered, under the Societies Registration Act or under the Companies Act or any other law which require both the General Body and the Board, should ensure that there is a transparent &

appropriate policy regarding general members and general meetings. The general members are the true owners of an NPO. Technically, all the general members put together form the highest and the most poweful body of an NPO. However, in reality the general members may not play an effective role in the governance of an NPO. The following are the few ways of creating an empowered general body :

- The size of the General Body is the most important factor which goes on to empower the general body and keeps checks and balances over the board members. The size of the general body should always be larger than the Board, ideally 3 times or more the size of the Board. The size of the General Body is also determined by the nature of NPOs work, generally movement based NPOs have larger General Body. However normally the size of General Body should vary between 15 to 50 members.

- The General Body should be the body of general members with equal voting rights. The membership should be open to all section of stakeholders.

- The general members should have formal rights of receiving information and the right to call for special meetings. They should also have the right to record their dissent in a meeting.

## THE BOARD OR THE TRUSTEES

**7.4.1** The board or the trustees happen to be the *de facto* most powerful body of NPO. The overview of the board, its functions and characteristics have been discussed in ***Chapter 4***. The other characteristic and dimensions of the board and trustees are discussed subsequent chapters.

## THE CEO & MANAGEMENT TEAM

**7.5.1** The CEO and staff members are responsible for the day to day

management of the organisation. The CEO happens to be the focal point around which the entire organisation revolves. He is the executive head of the organisation, the CEO generally does not possess legislative powers. The CEO interacts with most of the stakeholders such as donors, alliance partners, communities and also with the Board etc.

**7.5.2**    The senior management staff form a part of the management team alongwith the CEO. The CEO and Management staff, collectively, happen to  be the ultimate executive body of the organisation which works under the oversight of the board. The balance of power and responsibility between the CEO & Management staff and the board is the most crucial aspect of the governance structure of an organisation. The CEO & Management staff should be empowered by creating specific job mandate which encourages independent decision making in specified areas.

## THE STAFF & VOLUNTEERS

**7.6.1**    The staff and volunteers are the true soldiers or the flag bearers of an NPO. It is important that all the staff and volunteers are provided conducive and fair environment of work. The staff and volunteers may be empowered by :

- ⬥  Having specific job description which provides space for individual action & decision making which is in commensuration with the level of work.

- ⬥  Having transparent and fair selection, appraisal and promotion policies.

- ⬥  Providing safe and congenial environment for working.

- ⬥  Having work place policies, particularly, for female and differently abled staff.

- ⬥  Having independent redressal mechanism for grievance where

justice can be provided against anybody in the organisation including the CEO or the board members.

◆ Having fair compensation and social security measures.

◆ Having space for skill enhancement and capacity building.

◆ Having an equitable policy regarding the scales and levels of staff. There should not be marginalisation of staff working at lower scale or level.

## THE AUDITORS, ADVISORS, EVALUATORS ETC.

**7.7.1**    The Auditors, Advisors and Evaluators play a very key role in the governance of an organisation. They are normally independent external persons. Sometimes functions such as internal audit, monitoring etc. are also conducted by external professionals. It is important to ensure that the appointment of such persons is independent and they are in a position to review and critique the management. Normally, the job of the Advisor, Auditors and Evaluators is to have a control on efficiency and integrity of various management processes, therefore, the appointment and reporting of such persons should be directly to the board. In case of internal audits, the management may also have a say in the appointment depending on the size of the organisation. A brief note of Appointment and Independence of Auditors and Evalutors is provided in *Annexure 1.*

## THE BENEFICIARIES

**7.8.1**    The Beneficiaries are the people who are directly affected by the work of an NPO. The beneficiaries also have a direct interface with the NPO, therefore it is important to ensure that adequate empowerment of the beneficiaries is there in the process of the implementation of programmes. There could be various types of NPOs, some may have direct

and apparent beneficiaries and some may have indirect beneficiaries.Wherever the NPOs work directly with the beneficiaries, it is important that they are a part of the decision making and implementation process. Some NPOs involve village committees, CBOs (Community Based Organisations) etc. in the decision making process. Some NPOs conduct social audit involving the beneficiaries and the reference communities. NPOs may have representation from the target community in the board, advisory committees etc.

## IMPORTANT FACTORS IN THE HUMAN RESOURCE MANAGEMENT

**7.9.1** The Human Resource Management of the various types of human resources should apply the following important principles :

- The composition of people at each stage should be designed based on the size and nature of the organisation. A small organisation may not have advisors or a very large board. In a small organisation, one of the board members or the managing trustee may be the chief functionary. However, in a large organisation there might be a need for a proper advisory board, a well defined executive committee which is independent of the board etc.

- The loyalty and involvement of each individual at each stage needs to be assessed. The system should also enable an environment of ownership and committment towards the organisation's work.

- The various stages such as the board level, the CEO, the senior staff etc. demand specific level of experience and expertise. An NPO should prepare a review paper on the adequacy of the experience and skills at all level, on a regular basis.

- The human resources at various levels should be recognised and compensated well. **Only financial compensation is not enough,**

**it is the duty of the organisation to ensure that each and every person directly or indirectly involved with the organisation is working with a sense of dignity and as a part of the larger vision of the organisation which everybody should aspire to achieve.**

## TABLE SHOWING HUMAN RESOURCE & THE TOOLS OF EMPOWERMENT

| Type of Human Resource | The Tools of Empowerment |
|---|---|
| **The General Members** | ⬥ The size of the general body should always be larger than the Board, ideally 3 times or more the size of the Board.<br><br>⬥ The General Body should have members with equal voting rights. The membership should be open to all stakeholders.<br><br>⬥ The general members should have formal rights of receiving information and the right to call for special meetings. They should also have the right to record their dissent in a meeting. |
| **The Board or the Trustees** | ⬥ The Board should have an oversight function with complete authority and accountability for all executive and legislative functions. |
| **The CEO & Management Team** | ⬥ The CEO & Management staff should be empowered by creating specific job mandate which encourages independent decision making in specified areas. |
| **The staff and volunteers** | ⬥ Having specific job description which provides space for individual action & decision making which is incommensuration with the level of work. |

| | |
|---|---|
| | ◆ Having transparent and fair selection, appraisal and promotion policies. |
| | ◆ Providing safe and congenial environment of working. |
| | ◆ Having work place policies for female and differently abled staff. |
| | ◆ Having independent redressal mechanism for grievance where justice can be provided against anybody in the organisation including the CEO or the board members. |
| | ◆ Having fair compensation and social security measures. |
| | ◆ Having space for skill enhancement and capacity building. |
| | ◆ Having an equitable policy regarding the scales and levels of staff. There should not be marginalisation of staff working at lower scale or level. |
| **The auditors, advisors, evaluators etc.** | ◆ The appointment and reporting of such persons should be directly to the board. In case of internal audits the management may also have a say in the appointment depending on the size of the organisation. |
| **The beneficiaries** | ◆ NPOs should involve village committees, CBOs (Community Based Organisations) etc. in the decision making process. NPOs may conduct social audit involving the beneficiaries and the reference communities. |
| | ◆ NPOs may have representation from the target community in the board, advisory committees etc. |

## SELF ASSESSMENT QUESTIONS

**1.**      Write briefly on the Human Resources on an NPO and the important factors of empowering them ?

**2.**      Write briefly on the empowerment of general member in an NPO ?

**3.**      Write briefly on the empowerment of the CEO & Management Team in an NPO ?

**4.**      Write briefly on the empowerment of the staff and volunteers in an NPO ?

**5.**      Write briefly on the empowerment of the Auditors, Advisors, Evaluators etc. in an NPO ?

**6.**      Write briefly on the empowerment of beneficiaries in an NPO ?

# DIFFERENT TRAITS & TYPES OF BOARD

## INTRODUCTION

**8.1.1**    All NPOs are created by people for human intervention in public causes. Therefore, each NPO and its board is distinct and unique. The boards of NPOs consciously or unconsciously take different forms and assume different attributes which may or may not serve the purpose of the organisation. In this chapter we will discuss the various peculiarities of board structures and the de facto reality of various boards and trustees, based on our study, experience and understanding.

## BOARD FORMED IN 'FIDUCIARY' CAPACITY OR UNDER TRUSTEESHIP

**8.2.1**    The Trust form of registration was legislated for NPOs formed in fiduciary capacity or under trusteeship. In such model an individual or entity bequeaths its property or wealth for public purposes and appoints

a group of person as trustees. Some attributes of such board are as under :

- Appointment of board or trustee is discretionary in nature, at the hand of the settler,

- Board of trustee are more like a guardian for an orphan child.

- Boards are closely held bodies and they work on the principle of loyalty towards the settler of the trust. They work towards fulfilling the promise which they give by becoming trustees.

- Boards have a top down orientation where the trustees work on a pre-determined mandate.

**8.2.2**    Such fiduciary boards are good for specific trusts but such models have severe limitations when they start working on resources generated from society at large. Further the long term institutional sustainability and transition of leadership always remains a matter of concern in such models.

## FAMILY OR FOUNDERS BOARD

**8.3.1**    There are organisations including trust and society which are created by a particular family or an individual. In such organisation, the board and governance is basically controlled by one family or an individual. Some peculiarities of such model is as under :

- Such organisation has a board which comprises friends and relatives.

- The board of such organisation sometimes may have eminent people from the society, who normally do not give time or interfere.

- Such organisation normally becomes successful on the basis of the charisma, expertise or contacts of one individual or a family.

- Such organisation is prone to misuse of resources and power by the board members.

- In such organisations, empowerment of staff and democratic decision making become difficult.

- In such organisations, also, the long term institutional sustainability and transition of leadership always remains a matter of concern.

## FOUNDING MEMBERS BOARD

**8.4.1** There are organisations including trust and society which are created by a particular group of individuals who may have common goal and vision for public purposes. In such organisations, the board and governance is basically controlled by the founding members. Some peculiarities of such model is as under :

- Such organisations have a board which comprises the founding group of members and their friends & relatives.

- The board of such organisation sometimes may have eminent people from the society, who normally do not give time or interfere.

- Such organisations normally become successful on the basis of the charisma, expertise or contacts of the founding group of members.

- Such organisations sometimes turn out to the very effective in terms of governance and programatic relevance. However, such efffectiveness is dependent on the individual committment of the founding members. From a systemic point of view, such models do not reflect shared ownership of all the stakeholders.

- ◆ Such organisations are prone to infighting and power struggle within the board members.

- ◆ Such organisations are prone to misuse of resources and power by the board members.

- ◆ In such organisations, also, the long term institutional sustainability and transition of leadership always remains a matter of concern.

## CEO'S BOARD

**8.5.1**    There are organisations including trust and society which are controlled by the CEO or the Executive Director. Such organisations generally have a strong historical precedence and are generally created by formal institutions for specific or a larger cause. For instance, an Association of NPOs may be registered for a purpose or a donor may support in creation of an organisation for definite public purposes. The board and governance is basically controlled the management and the executive head of the organisation. In such an organisation the board is initially identified by the founding institutions and later on it may be based on ex-officio position or rotation of eminent people of the society. Some peculiarities of such model is as under :

- ◆ Such organisations have a board which comprises of eminent people from the society who are invited to oversee the governance process.

- ◆ The members of board of such organisations are scattered and sometimes are ex-officio positions. Further, the CEO of the organisation is relatively stable and the board may keep on changing. Therefore, the board may lack a strong sense of ownership and authority over the management.

- ◆ Such organisations normally become successful on the basis

of the charisma and expertise or contacts of the Executive Director or the CEO.

⬥ Such organisations sometimes turn out to the very effective in terms of governance and programatic relevance. However, such efffectiveness is dependent on the individual committment of the CEO or Executive Director. From a systemic point of view such models do not reflect shared ownership of all the stakeholders.

⬥ In such organisations the board sometimes becomes an ineffective formal structure which mostly relies on the inputs and directions provided by the CEO or Executive Director.

⬥ Such organisations do not have a healthy governance structure as the staff and management become more powerful then the board.

⬥ Such organisations are prone to misuse of resources and power by the CEO or Executive Director. Therefore, such organisations are strongly dependent on the charisma and values of the CEO or Executive Director.

⬥ In such organisations, also, the long term institutional sustainability and transition of leadership always remains a matter of concern.

## TOKEN BOARD

**8.6.1** There are organisations including trust and society which are created for public purposes but the board and governance is basically controlled by people other than the actual board members.

**8.6.2** *Case Study :* An NPO claimed that 100% of its board members were women from the target communities. However, in reality all these

board members depended on the management of the organisation, they were basically used to create an illusion of an accountable and participative model of governance. On verfication ofrecords it was found that the board members were entitled for bus fares and very modest accomodation in contrast tothe entitlement of the staff who were entitled for travel by Air and accomondation in three star hotels. There were many other findings which made it apparent that the board members were marginalised beneficiaries only. Some peculiarities of such model is as under :

◆ Such organisation have a board which comprises representatives from the target community.

◆ The members of board of such organisations stay away from the actual functioning of the organisation and are invited only twice or thrice in a year. Further, the CEO of the organisation is relatively stable and the board may keep on changing. Therefore, the board lack a sense of ownership and authority over the management.

◆ The board members depend on the CEO and management for various programme and entitlements which is a strong deterrent to their empowerment.

◆ Such organisations have a camoflaged board and from a systemic point of view such models do not reflect shared ownership of all the stakeholders.

◆ In such organisations the board in an ineffective formal structure which mostly relies on the inputs and directions provided by the CEO or Executive Director.

◆ Such organisations do not have a healthy governance structure as the staff and management become more powerful then the board.

◆ Such organisations are prone to misuse of resources and power by the CEO or Executive Director.

    ◆   In such organisations, also, the long term institutional sustainability and transition of leadership always remains a matter of concern.

## INTERESTED PARTY BOARD

**8.7.1**    In corporate governance it is provided that all companies should have independent directors. However, in case of NPOs, each and every director is supposed to be independent i.e. they should not have any personal interest in the resources or functioning of an NPO. However, the directors in an NPO are permitted to take reasonable remuneration and payment against any other goods and services rendered. In an NPO ,if majority the directors are taking remuneration, consultancy or have rented their premises etc., then such board is called an interested party board as most of the board members are dependent on the NPO for some monetary consideration (even if it is legitimate) which may impair their ability to govern. Some peculiarities of such model is as under :

    ◆   Such organisations have a board which comprises people who are involved in the day to day activity.

    ◆   The board of such organisations depend on the organisation for earning income for their personal purposes, therefore, if the number of such board members exceed more than 50% of the total boardthen the board does not remain independent

    ◆   Such organisations, sometimes, turn out to be the very effective in terms of governance and programatic relevance. However, from a systemic point of view, such models have little distinction between the management and the board.

    ◆   Such organisations are prone to compromises between the management and the board as both have individual interest at stake.

- Such organisations are prone to ineffective or misuse of resources and power by the board members.

- In such organisations, also, the long term institutional sustainability and transition of leadership always remains a matter of concern.

## EMPLOYEES BOARD

**8.8.1** In case of NPOs the, directors are permitted to take reasonable remuneration and payment against any services rendered. It has been seen that sometimes most of the board members draw salaries. In an NPO, if majority the directors are taking remuneration, then such board is called an employees board as most of the board members are dependent on the NPO for salaries (even if it is legitimate) which may impair their ability to govern. Some peculiarities of such model is as under :

- Such organisation have a board which comprises people who are involved in the day to day activity.

- The board of such organisations depend on the organisation for earning income for their personal purposes, therefore, if the number of such board members exceed more than 50% of the total board then the board does not remain independent.

- Such organisations sometimes turn out to be the very effective in terms of governance and programatic relevance. However, from a systemic point of view such models have little distinction between the management and the board.

- Such organisations are prone to compromises between the management and the board as both have individual interest at stake.

- In such organisations, an effective board does not exist and therefore it can be said that the organisation is being governed by the employees.

- ◆ Employees are one of the most important stakeholders but such models of board may result in misuse of resources and power by the board members in favour of the employees.

- ◆ In such organisations, also, the long term institutional sustainability and transition of leadership always remain a matter of concern.

## ORNAMENTAL OR EMINENT BOARD

**8.9.1** Many NPOs have a board comprising of very high profile individuals. There are NPOs whose board members are the "Who's Who" of the society. Such boards are highly impressive sheerly because of the quality and eminence of the board members. Some peculiarities of such model is as under :

- ◆ Such organisations have a board which comprises people who are not involved in the activity of the organisation.

- ◆ The board of such organisation does not internalise the work of the organisation because such member may not have the time to be involved in the organisation.

- ◆ Such organisations may be very effective in terms of governance and programatic relevance. However, from a systemic point of view such models have very little *de facto* role of governance for the board.

- ◆ The board of such organisations is generally endorsive in nature. However, due to the quality of the people involved enduring and strategic decision are generally well taken.

- ◆ Such organisations may not have an effective board for the oversight function over the management.

- ◆ Such organisations rely heavily on the CEO and Executive Committee for the normal functioning of the organisation.

- ⬥ Such boards do not reflect a true representation of the various stakeholders. Such boards should be balanced with people from other sections of stakeholders.

- ⬥ In such organisations, also, the long term institutional sustainability and transition of leadership always remains a matter of concern, as the organisation generally survives based on the executive systems.

## POLITICAL BOARD

**8.10.1** Many NPOs have a board comprising of individuals from cross section of stakeholders and members. There could be NPOs where the members may come from the geographical spread, for instance one board member from each district. Or a national level NPO may have state bodies as members and board members may come from each state. When the board is formed as a result of nominations/election based on pre-determined sections whether geographical or otherwise, such board are called political boards. National association of professionals and other national bodies are examples of such NPOs. Some peculiarities of such model is as under :

- ⬥ Such organisations have a board which comprises people who are not involved in the activity of the organisation at the governance level. Such people generally work at a functional or divisional level of the organisation. Therefore, the board members are prone to their individual divisional interest or the interest of the constituency they represent.

- ⬥ The board of such organisation is too involved and internalises with most of the work of the organisation because such member may be involved at various levels in the organisation.

- ⬥ Such organisations may be very effective in terms of

governance and programatic relevance. However, from a systemic point of view such models have very little *de facto* independence in the role of governance for the board.

◆ The board of such organisations is generally compromising in nature. Normally members belonging to powerful groups and constituencies influence the decision making process.

◆ Such organisations may not have an effective board for the oversight function over the management. The board is involved in the execution and the CEO and the management staff may not be empowered enough.

◆ In such organisations the voting power and number game becomes important and as a result the interest of the marginal stakeholders may suffer.

◆ Such boards provide a true representation of the various stakeholders, however it is difficult in such model to have independent board members who do not have any interest in the decision making process.

◆ In such organisations, also, the long term institutional sustainability and transition of leadership is not a matter of concern, as the organisation generally survive based on the membership and organisational structure.

## EX OFFICIO OR NOMINATED BOARD

**8.11.1** Many NPOs have a board comprising of individuals who are nominated by various institutions. There are NPOs whose general members are mostly institutions and various government bodies. The institutional members generally nominate members to the board. In such NPOs the board members are the Ex-officio nominations from various institutions and government bodies. Such boards are artificial in nature

as the board members get appointed only because of a position they are otherwise holding. Some peculiarities of such model is as under :

- ⬥ Such organisations have a board which comprises people who are not involved in the activity of the organisation.

- ⬥ The board of such organisation does not internalise with the work of the organisation because such member may not have the time to be involved in the organisation.

- ⬥ Such organisations may be very effective in terms of governance and programatic relevance. However, from a systemic point of view such models have very little *de facto* role of governance for the board.

- ⬥ The board of such organisations are generally endorsive in nature and the governance is largely dependent on the executive team.

- ⬥ Such organisations may not have an effective board for the oversight function over the management.

- ⬥ Such organisations rely heavily on the CEO and Executive Committee for the normal functioning of the organisation.

- ⬥ Such boards may reflect a true representation of the various member organisations. However, such boards should be balanced with people from other sections of stakeholders.

- ⬥ In such organisations, the long term institutional sustainability and transition of leadership may not be a matter of concern, as the organisation generally survives based on the membership structure and executive systems.

## SELF ASSESSMENT QUESTIONS

1.      What is a 'fiduciary' board or Trusteeship board ? Discuss briefly.

**2.** What is a family or founders board ? Discuss briefly.

**3.** What is a founding members board ? Discuss briefly.

**4.** What is a CEO's board ? Discuss briefly.

**5.** What is a Token board ? Discuss briefly.

**6.** What is an Interested Party board ? Discuss briefly.

**7.** What is an Employees board ? Discuss briefly.

**8.** What is an Ornamental or Eminent board ? Discuss briefly.

**9.** What is a Political board ? Discuss briefly.

**10.** What is an Ex Officio or Nominated board ? Discuss briefly.

*Chapter 9*

# CHARACTERISTICS OF AN EFFECTIVE BOARD

## INTRODUCTION

**9.1.1**     As discussed in the previous chapter, an NPO may have various kinds of board  and some may be effective and some may not be so. The diversity of board in the nature and composition happens because of the various types of NPOs working in various circumstances. Therefore, there cannot be a straight jacket formula or prescription for constitution of an effective board. The effectiveness of any board of an NPO will depend on the need, type and nature of the NPO. A particular model of board may not be effective for a particular type of NPO but it may prove very effective in another circumstances. In this chapter, we are providing certain broad characteristic of an effective board, which are as under :

- Ideal size based on the type of NPO.

- Diverse experiences and expertise of board members.

- Representation from diverse stakeholders.

- Policy regarding the proportion of board members from various aspects.

- ⬥ Independent and transparent process of election or selection of board members.

- ⬥ The frequency of meeting.

- ⬥ Policy regarding resolution and decision making.

- ⬥ Rotation of board members.

- ⬥ Ownership of decision making, minutes and resolution.

- ⬥ Periodic appraisal of performance and relevance of board members.

- ⬥ Effective distribution of the legislative and executive function between the general body and the executive team.

## SELF ASSESSMENT QUESTION

**1.** Provide an overview of the Characteristics of an Effective Board.

# MATRIX REFLECTING THE EFFECTIVENESS OF BOARD

## INTRODUCTION

**10.1.1** As discussed in previous chapter, the board and an NPO should have various characteristics to ensure its effectiveness. In this chapter we shall see the factors which bind together the various characteristics to deliver effectiveness of the board. The binding factor in the functioning of a board are the following attributes of the board members both collectively and individually. These attributes are as under :

- ⬥ At individual level the expertise which the board members bring.

- ⬥ At individual level, the experience which the board members bring.

- ⬥ At individual level the learning attitude which the board members bring.

- ⬥ At individual level the cohesiveness and the ability to work in team which the board members possess.

- ⬥ At collective level the adequacy of expertise of the board from various aspects.

- ◆ At collective level the adequacy of experience of the board from various aspects.

- ◆ At collective level the adequacy of learning attitude of the board from various aspects.

## MATRIX SHOWING EFFECTIVENESS OF BOARD



**B**

Axis B showing Learning Attitude & Cohesiveness

| Learning Board (3) | Effective Board (4) |
| Struggling Board (2) | Dominating Board (1) |

**A**

**Axis A showing Skills & Experience**
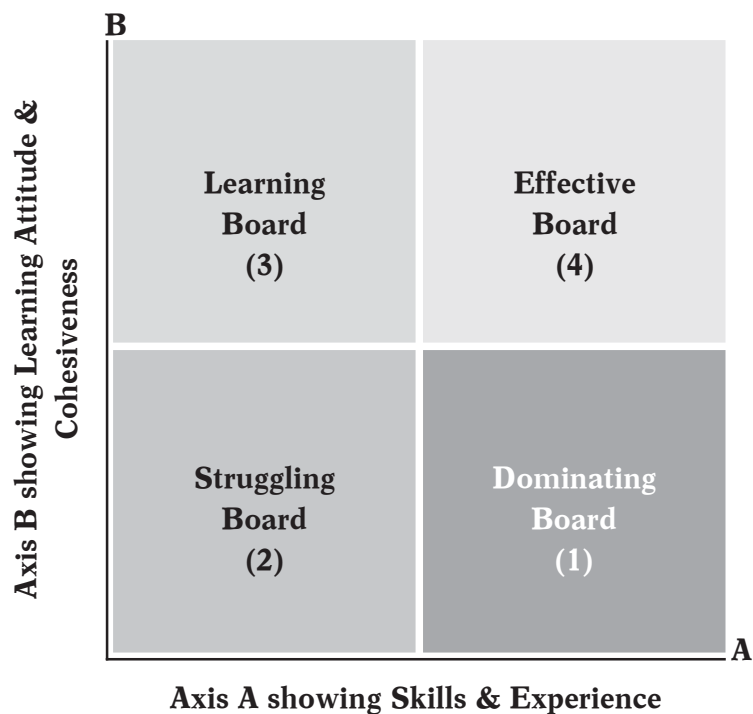
**10.2.1** In the above diagram it can be seen that the effectiveness of a board is a relatively complex issue. Even people with very high experience and skill may not create an effective board. The four types of board reflected in the matrix are discussed below.

**10.2.2** *Dominating Board :* The board may become dominating in nature even if experienced, skillfull and very competent persons are there

on the board. In the above diagram it can be seen that the quadrant (1) denotes that the board members are very high in terms of skills and experience but are very poor in terms of learning attitude and team spirit. Such a combination creates a dominating and arrogant board which may not value the importance of all the stakeholders particularly the marginal stakeholders.

**10.2.3  *Struggling Board :*** The board may become struggling in nature if the board members lack both experience & skills and at the same time they are very poor in terms of learning attitude and team spirit. In the diagram it can be seen that the quadrant (2) denotes that the board members are very poor in terms of skills and experience and are also very poor in terms of learning attitude and team spirit. Such a combination creates a struggling and incompetent board which may not have the capacity to control and direct an organisation.

**10.2.4  *Learning Board :*** The board may become learning in nature if the board members lack in experience & skills but are very good in terms of learning attitude and team spirit. In the diagram it can be seen that the quadrant (3) denotes that the board members are very poor in terms of skills and experience and they are very good in terms of learning attitude and team spirit. Such a combination creates a learning and evolving board which may not have the adequate capacity to control and direct an organisation, but has the humility and attitude of a leader. Such boards are much better than dominating board. It is desirable to have modest and humble people with less experience, who have great aptitude for learning and respect for each other. Such boards are much better than a group of highly qualified and experienced people, who are arrogant and beyond learning.

**10.2.5  *Effective Board :*** The board may become effective in nature if the board members have adequate experience & skills and are also good in terms of learning attitude and team spirit. In the diagram it can be seen that the quadrant (4) denotes that the board members are very good

in terms of skills and experience and they are very good in terms of learning attitude and team spirit. Such a combination creates a effective and desirable board which has the adequate capacity to control and direct an organisation and also has the humility and attitude of a leader. Such a board should be aspired by all NPOs.

## SELF ASSESSMENT QUESTION

1.    Write briefly on the Matrix of effectiveness of a board. Also explain the following types of board (i) Dominating Board, (ii) Struggling Board, (iii) Learning Board, (iv) Effective Board.

*Chapter 11*

# QUALITY OF A BOARD MEMBER

## INTRODUCTION

**11.1.1** A board member should have certain basic qualities in addition to the skills, experience and expertise he might be possessing. In this chapter we shall try to understand the key attributes which should be there in a person in order to become an effective and dynamic board member.

## A TRUSTEE FOR PUBLIC PURPOSES

**11.2.1** A board member should understand that he is a trustee or a custodian appointed to protect and uphold the interest of the public at large in terms of the specific mission and vision of the organisation. A board member does not belong to any stakeholder even if he is nominated by a particular stakeholder. The duty of a board member is to maximise and optimise the interest of all stakeholders and to ensure that the organisation is working in a fair and transparent manners, as per the bye laws and mission of the organisation.

## A BOARD MEMBER SHOULD BE A TEAM MEMBER

**11.3.1** A board member should understand that he is one important component of a larger body. Therefore, a board member should have the temperament and capacity to work in a team. A team work becomes possible when the members are able to build consensus on various issues. A team work also becomes effective if the board members complement each other in executing various responsibilities. The board members should share and divide their role and collective duty in terms of their individual experience and expertise.

## COLLECTIVE WISDOM ABOVE INDIVIDUAL BRILLIANCE

**11.4.1** A board member should understand that individual views and opinion are important in a collective process, but they should not become matter of needless dispute and argument. A board member should also have the ability to see the collective wisdom of any resolution or decision which may not necessarily be as per the individual brilliance or the understanding of the individual. In collective decision making, the individuals should have the capacity to see the larger picture and the background and perspective of other board members. The job of a board is to come out with a collective and shared understanding of the issues and the mandate, then only a participative and acceptable governance can take place.

## THE ABILITY TO THINK INDEPENDENTLY AND SHOW DISSENT IF NECESSARY

**11.5.1** A board member should also possess a strong individual character

so that he does not say yes to everything. Working in a team does not mean succumbing to the pressures or ideas of an individual or a group of fellow board members. If the board member sincerely believes a particular resolution of decision is not in the interest of the organisation or could the done in a much better manner, then the board member should show dissent. Even if a resolution is passed or a decision is taken without considering his/her views then he should ensure that a note of dissent is recorded in the minute book or other appropriate record as the case may be. Dissenting as well as being a team person could be tricky in nature, a board member should show dissent or go against the team only if there is prima facie reason to believe that something wrong or inappropriate is going to happen.

## KEEP HIMSELF/HERSELF INDEPENDENT OF ANY CONFLICT

**11.6.1** A board member should ideally be an independent person and should not draw any benefit or privileges from the organisation. However, if a board member is having legitimate financial transaction e.g his providing services or the organisation is using his premises etc., then it should be ensured that, all transactions are made in a fair and reasonable manner. A board member should not participate in any decision or resolution which is about any financial transaction or any transaction which can be considered as a conflict of interest transaction.

## GIVE TIME AND BE COMMITED

**11.7.1** A board member should understand that he/she by accepting to become the board members of a charitable organisation, has agreed to provide time and energy for public purposes. Therefore, a board member should internalise and empathise with the organisation and its constituency.

A board member should have a strong sense of ownership and belongingness to the organisation. He/she should remain on the board of limited organisation so that they can do justice to there appointment as a board member. He/she should be voluntarily willing to give time for the work of the organisation and remain committed to the mission of the organisation.

## SHARE THE OWNERSHIP OF EVENS AND ODDS

**11.8.1**   A board member should as a team own the responsibility for the acts and performance of the board. He/she should understand that the board is legally responsible for the protection and management of the resources and objects of the organisation. Therefore, any success or failure of an organisation can be largely attributed to the board.

## PROVIDE ACCESS TO ITS CONTACT AND RESOURCES

**11.9.1**   A board member should provide access to its contact and resources. In other word s, the NPO should also be benefited by the contact, resources and ability of the board member. However, it does not imply that the board member has an obligation to contribute to the NPO. It is a question of creating cross synergies and help the NPO in positioning and networking with the various stakeholders.

## SELF ASSESSMENT QUESTION

**1.**      What are the desirable qualities of a board member of an NPO ?

*Chapter 12*

# WHAT TYPE OF DIVERSITY SHOULD BE THERE IN A BOARD

## INTRODUCTION

**12.1.1**   A board should be diverse in terms of stakeholder representation as well as the background and competence of the board members. In this chapter we will discuss the various areas of expertise which, desirably, the various board members should possess, in order to create an effective board with adequate collective wisdom and expertise. The diversity in the board becomes important as the organisation grows bigger in terms of finances and activity.

## GRASSROOT EXPERIENCE

**12.2.1**   The most important requirement of an effective board is the actual grassroot experience of the ground realities in which the NPO is working. It is important that there are some board members who have experienced the ground reality and who can relate and internalise the various activities from a practical and realistic perspective.

## EXECUTIVE EXPERIENCE IN HANDLING PROJECTS

**12.3.1** Another important requirement of an effective board is the actual execution or implementation experience of the projects in the areas in which the NPO is working. It is important that there are some board members who have the experience of handling the projects which are similar with the project of the NPO. Such board members could be senior people who have given considerable part of their life in the execution of various projects.

## ISSUE SPECIALISATION

**12.4.1** Another important requirement of an effective board is the issue specialisation and the existence of subject experts in the areas in which the NPO is working. It is important that there are some board members who have the experience and understanding of the various aspects and nuances of the issues in which the NPO is working. Such board members can provide the conceptual clarity as well as help in creating practically relevant and effective models. Such board members can also contribute greatly to the organisation's mission and the appropriateness of such mission.

## FINANCE & INVESTMENT EXPERTISE

**12.5.1** Another important requirement of an effective board is the professional expertise of some of the board members in management of accounts, monitoring & finances. The board should have adequate capacity to understand the various financial systems, policies and management processes, in order to have a greater controlling oversight over the CEO and the management. The financial expertise is also important from the perspective of managing the resources and taking investment

decisions. Such expertise is also very crucial from a reporting and disclosure point of view.

## MANAGEMENT & PME

**12.6.1** Another important requirement of an effective board is the professional expertise of some of the board members in Management and PME (Planning, Monitoring & Evaluation). It would be ideal if some members have a governance or senior managerial background since the main function of the board is to keep an oversight on the management and PME systems. The board collectively should have the capacity to understand and visualise the functioning of the organisation. It is not necessary that a board member with management background may prove to be a good or effective board member. However, some persons having experience of governance at a CEO or board level certainly will add to the perspectives and the capacity of the board.

## LEGAL EXPERTISE

**12.7.1** Another important requirement of an effective board is the legal expertise of some of the board members. In todays world NPOs are subjected to various legal legislation and compliances. Any violation may result in serious repercussions for both the board members and the NPO. Further, the board should have the technical expertise and understanding of various MoUs, contracts, legal returns and policies. It is very crucial on the part of the board to understand the law of the land and the legal obligations under various contracts, because ignorance of law is generally not allowed as an excuse.

## PUBLIC RELATIONS (PR) & FUND RAISING

**12.8.1** Another important requirement of an effective board is the PR &

Fund Raising expertise of some of the board members. The board of an NPO should have the capacity to position the NPO in the civil society and create adequate image and recognition. The board members should have the capacity to convince the donors and other stakeholders for fund raising and development partnerships. The board should also have the ability to connect and network with the peer group and stakeholders.

## SELF ASSESSMENT QUESTION

1.      Write about the need and importance of a diverse board. What are the type of competence and expertise a board member should possess in an NPO ?

# WHY BECOME A BOARD MEMBER OF AN NPO

## INTRODUCTION

**13.1.1** Any person who agrees to become a board member of an NPO or has founded an NPO should understand certain basic principles and benefits of being a board member. In this chapter we shall discuss few key issues involved in becoming a board member of an NPO.

## SELFLESS SERVICE

**13.2.1** Becoming a board member of a charitable organisation has always remained a matter of discussion. One issue which is often debated is whether a board member can take revenue or earn from the NPO. It is traditionally understood that board members or trustees cannot charge remuneration just for being a board member or trustee. A board member is like a caretaker of resources which belong to somebody else. A board member in an NPO is voluntarily supposed to offer his/her time and effort for a public cause in which he/she believes. However, with changing times

it has been accepted that the board members may not take remuneration just for being a board member, but can always take remuneration for specific services rendered.

**13.2.2** The moot point to understand is that one has to become a board member without any financial expectation with a sense of service towards a public cause. In NPOs it is not expected that any director or trustee shall join with a conflict or expectation in return.

## OPPORTUNITY TO CONTRIBUTE FOR PUBLIC CAUSES

**13.3.1** By becoming a board member of a charitable organisation, a person gets an opportunity to participate and contribute for public causes which may benefit the society in many ways. A person individually may not succeed in working for various causes in which he might be interested to contribute or bring about a change. An NPO provides a person the opportunity to become a part of a large process where his/her specific abilities can also be used for the benefit of the society. A person also gets a window to give back to the society in his/her humble way, a portion of his/her expertise and success.

## OPPORTUNITY TO UNDERSTAND THE GROUND REALITIES

**13.4.1** By becoming a board member of a charitable organisation, a person gets an opportunity to understand the issues and problems which exists in our society. Many of us are not aware of the harsh realities and circumstances in which our fellow human beings are existing. Joining an NPO provides a great opportunity to have a direct interface and assessment

of the world and its issues; in the areas of interest of the board member. It broadens the perspective of an individual and sometimes motivates to be involved with society in ways which he/she might not have comprehended earlier.

## PERSONAL & PROFESSIONAL GROWTH

**13.5.1** By becoming a board member of a charitable organisation a person gets an opportunity to grow at personal and professional level. A board member of an NPO gets exposure to various diverse kind of experiences and eminent people. He/she also gets exposure to various stakeholder. An NPO can provide opportunity of learning in various spheres of life which will help an individual to grow both at personal and professional level.

## RECOGNITION & CONTACTS

**13.6.1** By becoming a board member of a charitable organisation a person gets an opportunity to get in touch with various diverse kind of institutions and eminent people. Being a board member of an NPO mutually adds to the recognition and self respect of both the NPO and the individual member.

## SELF ASSESSMENT QUESTION

1.     Why any person should become a board member in an NPO ? Discuss the major advantages and issues involved.

*Chapter 14*

# WHAT IS OVERSIGHT FUNCTION OF BOARD

## INTRODUCTION

**14.1.1** A board has to understand the delicate difference between governing and managing. A board is not supposed to manage an organisation but it is supposed to oversee and control the management of an organisation. For example, in some sports like tennis we have the concept of a non playing captain. A non playing captain is a person who is involved in each and every aspect of the game but is not actually playing. A board has to devise a similar mechanism, where it directs and manages the management team without participating in the management process. One has to be very careful in designing the governance process and the role of the board. It may result in two extremes (i) the board becomes too interfering and troubles the management at each and every step (ii) the board becomes passive and the management stops reporting to the board and its role is relegated to endorsing the management decision at periodic interval.

**14.1.2** Developing the ideal oversight function is to strike a balance between the above two extremes.

# CHARACTERISTICS OF AN
# IDEAL BOARD OVERSIGHT MECHANISM

**14.2.1** Developing a governance structure where the board is playing the ideal role which is controlling as well as empowering the CEO and the management is the art and challenge for every organisation. Some attributes of such a mechanism are as under :

- ⬥ As discussed above, the board should not try to manage the activities or the functions of the organisation. It is the job of the team headed by the CEO to execute all activities and functions. Therefore, the board should develop a mechanism of MIS and reporting by the management team.

- ⬥ The board should set controls in the management journey, in other words, it should set a mechanism where crucial or large value decisions are routed through the board.

- ⬥ The board should retain with itself all strategic learning and decision making. For instance, whether a building should be constructed or not should be the prerogative of the board, but how the building will be constructed, who will be contracted etc. should be the prerogative of the management. Another way of looking at it is that board level decisions could be to take all long term decision. The decision whose impact will be for a long period i.e. multiple years may be approved at the board level only.

- ⬥ The board should setup a mechanism whereby it ensures that all timelines and compliances are being met by the management. The management should be made accountable for any deviation.

- ⬥ The board should also clearly define the role, function and mandate of the management team and thereafter should monitor the various execution, delivery, timelines and compliances without interfering into the process. The board should become pro-active only if there are violations or failures in execution, delivery, timelines and compliances of various functions and processes.

## EXAMPLES OF DIVISION OF THE FUNCTIONS OF THE BOARD AND THE MANAGEMENT

**14.3.1** There is a lot of confusion regarding the division of role and mandate between the board and the management. In suceeding paras we are providing some key areas where the board should or should not take the decision making or execution at its level.

## LONG TERM & PERSPECTIVE PLANNING

**14.4.1** The long term and perspective planning is analogous to the mission and revision in the mission of an organisation. Any resolution or decision pertaining to long term or perspective planning should be carried out at the board level only. The management should be responsible for providing data and inputs for such planning processes. In other words, the management should play a support and complementing role to the board.

## THE ANNUAL PLAN & ANNUAL BUDGET

**14.5.1** The annual plan and annual budget should be the responsibility of the management of the organisation. The board should not interfere into the annual planning process. However, all annual budgets and plans should be placed before the board for approval. In case of large organisation or organisation where multifaceted plan and budgets are being prepared, the approval may be taken on case to case basis. The board may also consider reviewing and interim plan or budget at a periodic interval to ensure that there is no need for course correction. However, the mandate of annual plan and budget should remain within the domain of the management of the organisation.

## SYSTEM RELATED POLICY DOCUMENTS

**14.6.1** All system related policy documents such as Finance Policy, Procurement Policy, Staff Policy etc. should be prepared by the management and approved by the board. In case of smaller NPOs, such policy document may be prepared at the level of the board in consultation with the management staff.

## ENDURING AND CONSTITUTIONAL POLICIES OR BYE LAWS

**14.7.1** All enduring and constitutional policies or bye laws such as :

- ◆ Changes in the objects or Memorandum
- ◆ Changes in the objects or Rules and bye laws
- ◆ Vision Statements
- ◆ Mission Statements
- ◆ Governance Policy
- ◆ Conflict of Interest Policy
- ◆ Transparency and Disclosure Policy
- ◆ Gender Policy etc.

should be prepared by the board and the management may provide inputs on case to case basis at the discretion of the board. Certain issues such as :

- ◆ Changes in the objects or Memorandum
- ◆ Changes in the objects or Rules and bye laws
- ◆ Vision Statements
- ◆ Mission Statements

should be recommended by the board to the general body for its approval.

## ACCOUNTING & MANAGEMENT OF FUNDS AND ASSETS

**14.8.1** The accounting & management of funds and assets shall be the responsibility of the management. The board should be entitled to periodic reporting and course correction if any.

## INTERNAL AUDITS & EXTERNAL AUDITS

**14.9.1** It is the responsibility of the board to appoint the internal and external auditors. In case of statutory auditors, the appointment of board needs to be further approved by the general body. Ideally the internal auditor should directly report to the board which will empower him/her to be able to report about the management to the board. The statutory auditors should submit the management letter directly to the board.

## MONITORING & INSPECTION

**14.10.1** The monitoring and inspection for various processes and systems is the responsibility of the management. If consultant and external experts are hired, they can be appointed by the management, unless the monitoring and inspection involves a scutiny or review of the functions of the CEO and Senior Management. The board shall be entitled to receive MIS and reports from the management in a manner which may have been laid down.

## EVALUATION & IMPACT ANALYSIS

**14.11.1** The overall evaluation and impact analysis of the programmes should be carried on by the board. The management should support in carrying out of such processes.

## APPOINTMENT, APPRAISAL & PROMOTION OF STAFF

**14.12.1** The entire process of appointing, appraisal & promotion of staff shall be the responsibility of the CEO and Management of the Organisation. The board shall determine and approve the process of appointing and appraisal of the CEO or selected very senior staff. In case of other staff, the board shall be entitled to receive MIS and reports from the management in a manner which may have been laid down.

## TRAINING & CAPACITY BUILDING OF THE STAFF

**14.13.1** The entire process of training and capacity building of staff shall be the responsibility of the CEO and Management of the Organisation. The board shall determine and approve the process of capacity building of the CEO or very senior staff. The board may further determine the process and mechanism for the sensitization of the board members. In case of other staff, the board shall be entitled to receive MIS and reports from the management in a manner which may have been laid down.

## STAKEHOLDER & DONOR ENGAGEMENT

**14.14.1** The responsibility of stakeholder & donor engagement shall be with the CEO and Management of the Organisation. The Management should manage and maintain the various relation, delivery, communication and compliances required for various stakeholders. The board should support in stakeholder engagement, particularly with regard to fund raising and image building of the organisation. The management should interact with all the stakeholders including the donor, beneficiaries etc.

## LEGISLATIVE RESPONSIBILITY
## OF THE ORGANISATION

**14.15.1** The board is primarily responsible for all legal obligation and legislative issues. However, it is the responsibility of the CEO and Management of the Organisation to ensure legal compliances at all stages. The board approves and signs all legal documents unless some specific powers are delegated the CEO.

## BOARD & GENERAL MEETINGS
## & ITS AGENDA

**14.16.1** The board is primarily responsible for the convening of the board meetings. Generally the secretary (or equivalent position), who is the legislative functionary, convenes the board and general meeting. The agenda of the meeting is generally prepared in consultation with the management.

**14.16.2** The management may also initiate the process of convening a meeting, if necessary, by taking up the matter with the secretary who represents the legislative functions of the board. However, the logistic and documentation support for the meetings is the responsibility of the management. The management is also responsible for secretarial support and preparation of the minutes. The management should also ensure that all important issues are placed before the board or general meeting.

## ADVISORS & COMMITTEES

**14.17.1** The board is primarily responsible for constituting various committee for specific functions of the organisation. For example, the

board may constitute a finance committee or a purchase committee to whom the management can report for specific purposes. Similarly, the board is responsible for appointing strategic advisors who can guide the management in general or specific aspects of the management processes.

## CONSULTANTS & CONTRACTORS

**14.18.1** As discussed above, the board is primarily responsible for constituting various committee and appointing advisors, However, the management is responsible for appointment of consultants and contractors. In other words, the board should not interfere with the management with regard to the engagement of various service providers, suppliers, contractors and vendors.

## CONFLICT RESOLUTION

**14.19.1** The board shall be responsible for resolution of conflicts pertaining to various stakeholders and senior staff. The board generally designs and creates an adequate mechanism for conflict resolution which is managed by the CEO and management under the oversight of the board. The board should ensure that conflicts where the management may have conflict of interest should be resolved by the board directly or through independent bodies. A sound governance system should have space for dispute and grievance resolution against even the board members and powerful functionaries. In such circumstances the board should develop mechanism whereby the interested or alleged persons are not in a position to influence the process.

## SELF ASSESSMENT QUESTIONS

1.      What is oversight function of the board ? Distinguish between the function of the board and the management.

**2.** What are the characteristics of an ideal board oversight mechanism ?

**3.** Discuss in details the various important functions where the board should have an oversight or direct role. Also discuss the functions which come under the mandate of the CEO and the Management ?

*Annexure 1*

## APPOINTMENT AND INDEPENDENCE OF AUDITORS AND EVALUATORS

## INTRODUCTION

**1.01** The ethics committee of International Federation of Accountants (IFAC) has issued in January, 2002, a new independence standard as a part of its code of ethics. Independence of auditor is considered as a crucial factor in determination of the quality of audit. The factors which can affect the independence are as under:

- ◆ Self interest
- ◆ Self review
- ◆ Advocacy
- ◆ Intimidation

**1.02** A direct financial interest in a client would create a self-interest threat. Preparation of the original data used to generate financial statements would create a self-review threat. Acting as an advocate on behalf of an audit client in litigation would create an advocacy threat. A member of the audit team having an immediate family member who is a director of the audit client would create a familiarity threat. Threat of replacement of the auditor over a disagreement would create an intimidation threat.

**1.03** Further certain activities which the auditor or evaluator should refrain from undertaking are (i) authorising, executing or consummating

a transaction on behalf of the client or having the authority to do so. (ii) Determining which recommendation should be implemented. (iii) Reporting, in a management role, to those charged with governance or systems failure. (iv) Evaluation of matters material to the financial statements which involve a significant degree of subjectivity.

## RECOMMENDED PRACTICES

**1.04** The statutory auditors of the NPOs should be normally appointed as per the provisions of the constitution of the NPO. The following persons should not be appointed as statutory auditors :

- ⬥ A person who is a relative of the board members or the CEO of the NPO.

- ⬥ A person who is engaged in providing services pertaining to organisational financial systems (including preparation of books of accounts) or any other nature which is beyond the mandate of a professional auditor.

- ⬥ The person should not himself be a part of the management of the NPOs.

- ⬥ The person should not be the chief functionary of any other NPO.

**1.05** In case of appointment of auditor for externally funded projects it is recommended that there should be a tripartite agreement between the donor, partner and the auditor.

**1.06** The auditor should be remunerated adequately, preferably, as per the guidelines issued by the Institute of Chartered Accountants or the appropriate body in the respective country.

**1.07** The appointment or the removal of the auditor should be done only through a special resolution of the general body or the board as the

case may be. It is desirable that a clause for unanimous resolution is kept for such decisions.

**1.08** The statutory auditor should not be engaged for internal audit or control functions.

**1.09** The appointment of evaluator should consider the following :

- ◆ The evaluator should be culturally sensitive and appropriate for the communities where evaluation would be done.

- ◆ The evaluator should have experience and expertise in assessing on going sustainable procedures committed to effective and efficient delivery of service.

**1.10** The guidelines in ***para 1.04* to *1.08*** shall also apply to external evaluators with necessary modifications.