

UNIT- 1

OVERVIEW OF GOVERNANCE OF NGOS

INTRODUCTION

01.01 *Kautilya's Arthshastra*¹ provides four principles of governance², which a king should exemplify, they are :

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|------|-------------------|-------------|
| i) | <i>Raksha</i> | Protection |
| ii) | <i>Vridhi</i> | Enhancement |
| iii) | <i>Palana</i> | Maintenance |
| iv) | <i>Yogakshema</i> | Safeguard |

01.02 The above four principles are relevant and in context even today, more so for NGOs.

01.03 *Raksha* : An NGO has to protect its resources, values and the focus of its vision, therefore, all its systems and acts should consistently contribute towards them.

01.04 *Vridhi* : An NGO has to enhance its ability to perform. Because in a constantly progressing world even maintenance of *status-quo* tantamounts to deterioration.

01.05 *Palana* : An NGO has to manage and maintain its resources, systems and people in such a way that they constantly enhance its effectiveness and social relevance.

01.06 *Yogakshema* : An NGO needs to safeguard its resources, its systems, its people and the interests of its stakeholders against all current and future uncertainties/contingencies.

Kautilya's Arthashastra is believed to have been written by *Chanakya* during 321-291BC. It is an exceptional treatise on fiscal principles for running kingdoms.

From 'Good Corporate Governance - Matching Expectations' by Dr. P.L.Sanjeev Reddy - Corporate Governance, Concepts & Dimensions, August-2003, published by Snow white, Mumbai.

01.07 If an NGO desperately aspires to put in place all the above four principles of governance then social accounting will automatically start falling in place.

TECHNICAL OVERVIEW OF GOVERNANCE IN AN NGO

01.08 *Adrian Cadbury Committee Report*³ defined governance as a system which directs and controls an organisation. An NGO is an artificial legal person therefore, it is governed by various group of people having a very clearly defined role to play.

01.09 All registered voluntary organisations are a distinct legal entity and therefore an artificial legal person. The legal status of an organisation comes with legal obligations such as :

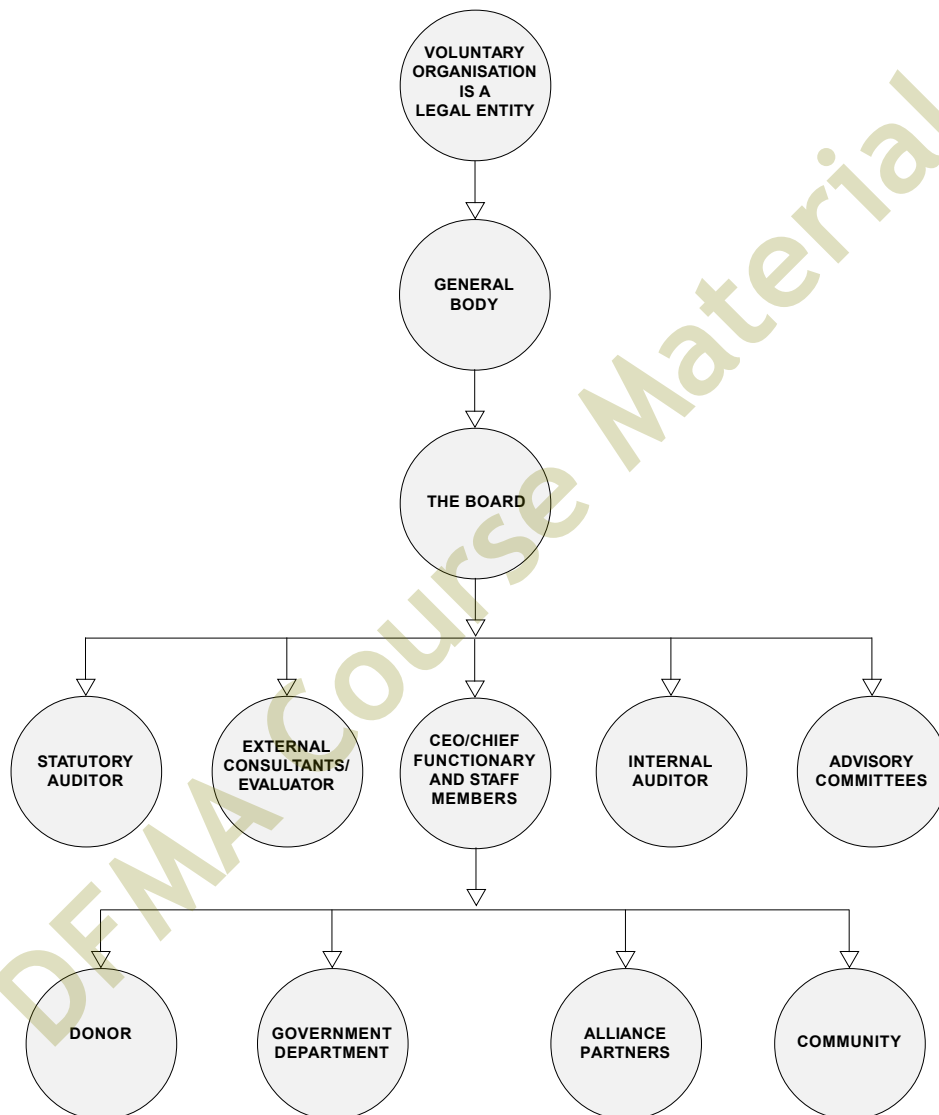
- i) Statutory audit of accounts
- ii) General & Board Meetings
- iii) Filing of Returns
- iv) Adhering to the Bye-laws
- v) Area of operation
- vi) Election of office bearers etc.

01.10 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 persons/committees which go on to build an effective governance system.

01.11 The General Body - All very important and statutory nature decisions are taken at the General Body level. Some of such decisions could be as under :

In 1992 Adrian Cadbury Committee submitted a report on Corporate Governance and the social responsibilities of corporate organisations. Probably for the first time 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 of organisations is just and fair to all stakeholders.

**FLOW CHART SHOWING THE ORGANISATIONAL
STRUCTURE AND FUNCTIONS**



- (i) Annual General Meeting
- (ii) Appointment of Auditor
- (iii) Election of Office Bearers
- (iv) Amendment of bye-laws
- (v) Purchase of large properties, etc.

But somehow in reality the general members do not play a very effective role in the governance of an organisation. There is a deficiency in the core foundation of the organisation itself. Many organisations have a co-terminous committee i.e. both the board and the general body comprise same set of persons.

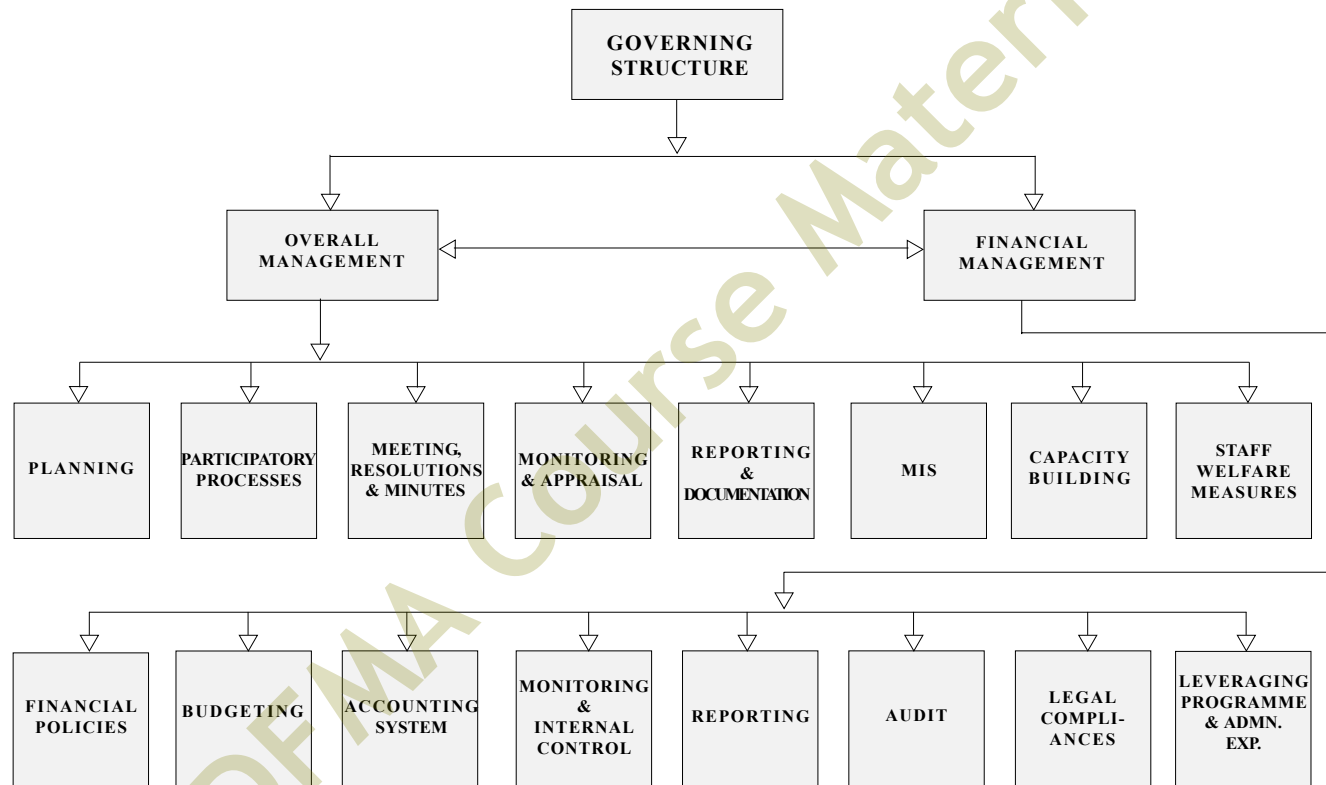
01.12 The Board - The board happens to be the *de facto*, most powerful body of an organisation and in the absence of an effective board it is very difficult to ensure good governance in any organisation. All decisions of enduring nature are taken on the board level and the board delegates authority and responsibilities to the CEO and other managerial persons. Some of the functions of the board could be as under :

- approval of projects and activities to be undertaken
- periodical perusal of the reports from Secretary and other key functionaries
- approval of purchase of assets for large financial transactions
- approval of budgets and investments
- ensuring legal compliances
- finalising annual financial transactions
- staff capacity building measures
- vision and mission exercise
- opening of bank accounts
- appointment of staff
- internal control measures
- resource mobilisation, etc.

01.13 CEO and Management Staff : They 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. If proper checks and balances are not ensured at CEO level then the governance of the organisation may suffer. The CEO interacts with most of the stakeholders such as donors, alliance partners, communities, etc.

01.14 An NGO needs to ensure that all the stakeholders and the components of an NGO reflected in flowchart are working in harmony with each other . The Social Accountability Quotient (SAQ) of an organisation in terms of its

FLOW CHART SHOWING THE GOVERNING STRUCTURE OF AN ORGANISATION



governance can be determined from the kind of interface the organisation is having with its stakeholders and functionaries.

01.15 The organisational governance system has various subsystems; the flowchart on **page 35** depicts the various aspects of organisational management including financial management.

01.16 All these components are interlinked and are complimentary to each other. An organisation cannot consider itself as successful if it excels only in programme activities and if its administrative or financial part is not performing well. Similarly, it is also not complete if the organisation's financial systems are well developed but lacks in programme performance.

01.17 Deficiency in any one of the systems will affect the overall performance of the organisation and will not yield the desired result.

WHEEL OF SOUND GOVERNANCE

01.18 The aforesaid was a technical analysis of the characteristics and processes of a sound governance system. But sound governance can only exist if it is in a position to satisfy the canons of optimum and fair existence which are as under :

WHEEL OF SOUND GOVERNANCE

