

# The Crucial Difference Between Governance and Management

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# Speaker Qualifications

- Do you read the newspapers, watch public television? See attachment
- Board Member – TriCity Hospital Board (16 years); Mira Costa College Foundation; Casa De Amparo, San Diego Medical Society Foundation;
- Board Member and Co-founder of several Churches; CPAmerica;
- AKT LLP
- Positions Held – Chairmen of the Board, Finance, Audit, Human Resources, Governance, Managing Partner and Executive Committee of a for-profit Company
- Honors – California Healthcare Association Leadership and Governance Award, Carlsbad Chamber of Commerce – Business of the Year along with Legoland

Presentation Objective: To be able to understand the distinction between the Roles of Management and the Board (Governance) and the affect on the Organization.

# What are we going to cover?

1. Ron's Observations
2. The Test(hand-out)
3. Non-profit and for-profits – How are they same and how they are different?
4. Definition of a Board.
5. What is governance?
6. Fundamental role of a Board member and a Chairperson
7. Why do people serve on a Board and why is that important?
8. New member orientation.
9. Factors that influence focus of Board members involvement.

# What are we going to cover?

- 10. Board and management issues.
- 11. Liability Issues
- 12. Questions

# Ron's Observations

- The distinction between governance and management varies from organization to organization, and from time, within each organization.
- When the board steps out of its role, it can make matters worse, and usually results in rifts between the Board and executive management.
- The very nature of governance “roles” helps boards to take strategic approaches to issues rather than focus on operational issues.
- By fulfilling their policy-making roles, board most clearly follow their governance role.

# Ron's Observations (continued)

- Boards stray into operations and away from policy for two main reasons: (1) they pursue what is most familiar to them, and (2) they lose faith in the CEO.
- The Board and CEO should be accountable to each other and pursuing the same goals. – it's a joint effort.

# First The Test



# Non-profit and for-profits – How are they same and how they are different?

## For – Profit Corporations

- Owned by stockholders
- Generate money for the Owners
- Success is making profit
- Board members are usually paid.
- Profit is distributed.
- Stockholders enforce rights.

## Non – Profit Corporations

- Owned by the public.
- Serve the Public
- Success is meeting the needs of the public and full filling mission.
- Board members are usually volunteer.
- Excess of revenue over expenses should be spent to full fill the mission.
- State Attorney General enforces rights

# Definition of a Board.

- An organized group of people with the authority collectively to control and foster an institution that is usually administered by a qualified executive and staff.

Cyril Houle, governing Boards: Their Nature and Nurture, Jossey-Bass, 1997, p.6

# What is governance?

- The Act, process or power of governing.
- Decision making processes in the administration of an organization.
- A structure that, at least in theory, works for the benefit of everyone
- A structure of relationships and processes to direct and control the enterprise in order to achieve the enterprise's goal.

# The Three Main Board Duties

- Duty of Care
- Duty of Obedience
- Duty Of Loyalty

# Duty of Care

- The duty of care describes the level of competence that is expected of a board member, and is commonly expressed as the duty of “care that an ordinary prudent person would exercise in a like position and under similar circumstances.” This means that a board member owes the duty to exercise reasonable care when he or she makes a decision as a steward of the organization.

# Duty Of Obedience

- The duty of obedience requires Board members to be faithful to the organization's mission and the rules/laws of the Federal and State governments. They are not permitted to act in a way that is inconsistent with the central goals of the organization.

# Duty of Loyalty

- The duty of loyalty is a standard of faithfulness; a board member must give undivided allegiance when making decisions affecting the organization. This means that a board member can never use information obtained as a member for personal gain, but must act in the best interests of the organization.

# Key responsibilities of the Board

- Preserving and, when necessary reshaping the mission.
- Selection of chief executive.
- Ensuring the organization is well managed.
- Representing the external world to the organization and the organization to the external world.
- Protecting the organization from external threats.



# Key responsibilities of the Board

- Exercising financial stewardship.
- Making sure that the board has the right skills and practices to do its job.
- Making sure that the organization is in compliance with Laws and regulations.

# The Board Should Expect Certain Things From Its Executive Management

- A cooperative and open relationship.
- Guidance on policy and strategy.
- Sufficient amounts of the right kind of information, in a timely fashion, to enable trustees individually and collectively to fulfill their duties.
- Management's best interpretation of reports, performance and leading indicators .
- Expect the organization to be good corporate citizen.

# Your Duties as an Individual board member

- Attendance
- Be prepared and informed.
- Speak your mind and ask hard questions.
- Use your “gut” – if doesn’t feel right it probably isn’t.
- Stewardship of the organization’s assets.
- Integrity is paramount.
- Servant leadership.
- Platinum rule – treat others better.

# Board Members Do Not Have!

- Individual power or authority
- Neither does the Board Chair

# Executive Management Should Expect Certain Things From Its Board

- Show up and be prepared.
- No sand bagging – express their views and timeliness/quality of the information they receive.
- They will seek additional information if they need it.
- Confine their activities to their role as trustees, and not allow themselves to drift into the management domain.
- Loyalty to the organization.

# Factors That Influence Involvement

- New and small non-profits – no or very little staff involvement.
- Larger established non profits have resources to effectively implement policies.
- Board has very little confidence in the CEO
- Nonprofit struggling to work toward mission and priorities.
- Type of culture – autocratic versus egalitarian.

# Legal Liability

- Fiduciary obligation to the organization.
- Conserve and protect the organization's assets
- Responsible for corporate compliance ( information returns, payroll etc.)
- Must act in good faith and loyalty and the best interests of the organization
- Respecting donor's wishes (temporarily and permanent restricted contributions)
- Liability to third parties
  
- CHECK YOUR D&O POLICY – have an independent attorney go over the coverage with you.

# Management's Responsibilities

- Responsible for the selection and supervision of staff
- Development and implementation of the budget.
- Establishing operating procedures.
- Keeping the Board informed.



# Stuff You Should Have

- The organization's articles of incorporation.
- The bylaws and amendments.
- A brief history of the organization.
- A statement of the organization's mission and services.
- Regular financial and operating reports (990 Filings)
- Organization's strategic plan.
- A copy of the directors' and officers' (D&O) liability policy.
- List of key executives.
- Minutes
- Copy of conflict-of-interest policy disclosures
- Results of any governmental audits.
- Board policies.

# Conclusion

## Role

- Policy making is not.....
- Decision making is not.....
- Oversight is not.....

## Example

- Policy implementation
- Decision implementation
- Close oversight of day to day operations

# Conclusion continued.....

## Responsibility

- Financial oversight is not.....
- Board Governance is not.....

## Example

Expecting management to explain basic financial theory each time financial statements are presented to the board.

An informal process

# Conclusion continued.....

## Responsibility

Mission and strategic planning oversight are not....

Executive management oversight  
Is not.....

## Example

Changing the course of the organization without management input.....

Stepping in to resolve individual operating issues that are the responsibility of the CEO.

# Questions???????

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## Definitions

**Governance** – The systems and processes concerned with ensuring the overall direction, effectiveness, supervision and accountability of an organization.

**Management** – The act of directing and controlling a group of people for the purpose of coordinating and harmonizing the group toward accomplishing a goal beyond the scope of individual effort.

**By-laws** – Rules governing the operation of a nonprofit corporation. By-laws often provide the methods for the selection of directors, the creation of committees and the conduct of meetings.

## References

A Handbook of NGO Governance: The Central and Eastern European Working Group of Nonprofit Governance  
<http://tinyurl.com/4ecbrw>

Governance – The Role of the Board  
<http://tinyurl.com/bkz6v6>

Expert Discusses Effective Principles, Procedures for Nonprofits  
<http://tinyurl.com/5zcgsl>

Board Source: Building Effective Nonprofit Boards  
<http://tinyurl.com/49vmw2>

## Topic: Governance

### *Governance, Management and the Role of a Board of Directors*

**Q. What is the difference between governance and management? Who provides governance, and why is it important?**

**A.** As noted under Definitions, **governance** and **management** are not the same things. Governance is about vision and organizational direction as opposed to day-to-day management and implementation of policy and programs.

As organizations grow and expand, it is important to understand the difference between governance and management and who is responsible for each.

In most civil society organizations, governance is provided by a board of directors, which may also be called the management committee, executive committee, board of governors, board of trustees, etc. This group oversees the organization, making sure it fulfills its mission, lives up to its values and remains viable for the future.

Although by no means an exhaustive list, essentially, the board has the responsibility to:

- Define expectations for the organization
  - Set and maintain vision, mission and values
  - Develop strategy (e.g., long-term strategic plan)
  - Create and/or approve the organization's policies
- Grant power
  - Select, manage and support the organization's chief executive
- Verify Performance
  - Ensure compliance with governing document (e.g., charter)
  - Ensure accountability and compliance with laws and regulations
  - Maintain proper fiscal oversight

Management takes direction from the board and implements on a day-to-day basis. Management has the responsibility to:

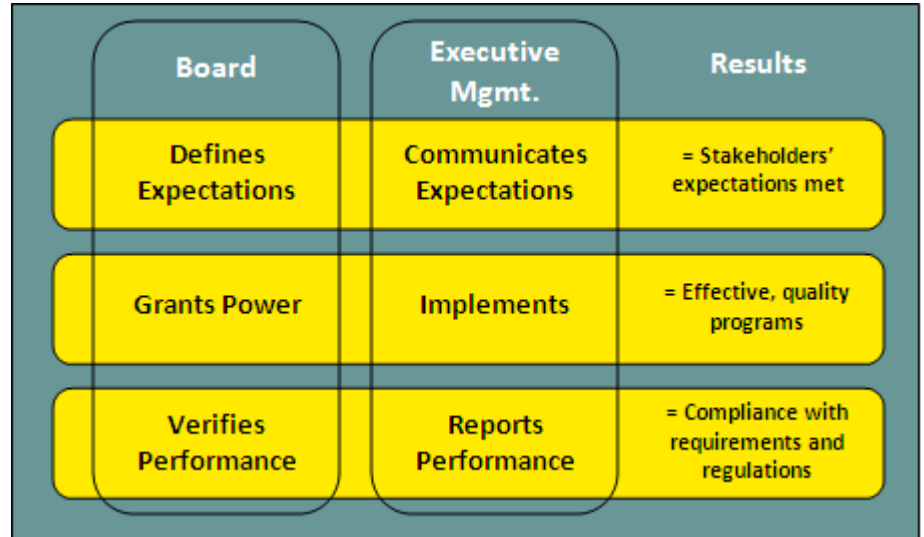
- Communicate expectations—mission, strategy, policies—to the entire staff;
- Manage day-to-day operations and program implementation to fulfill the expectations; and
- Report results to the board.

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When the balance between the responsibilities of the board and management is established and functioning well, the organization is better able to:

- Meet the expectations of clients, beneficiaries and other stakeholders;
- Deliver quality programs that are effective and efficient; and
- Comply with laws, regulations and other requirements.



**Next Steps**

If your organization is struggling with finding a balance between the roles of the board and executive management, review your organization’s charter or other governing document, the board’s terms of reference and the job descriptions of senior management staff to see what parameters are defined.

If these sources are insufficient to provide clarity, then consider asking the board to define responsibilities and procedures more clearly. In the end, it is part of governance—and therefore part of the board’s responsibilities—to ensure that organizational roles and structures are clearly defined.

**For More information**

For this or other issues of this eNewsletter, please visit [www.NGOConnect.NET](http://www.NGOConnect.NET). The Web site is a dynamic and interactive portal dedicated to connecting and strengthening NGOs, networks and NGO support organizations worldwide.

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