

**The Central and Eastern European
Working Group
on Nonprofit Governance**

A Handbook of NGO Governance

Marilyn Wyatt

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The Central and Eastern European Working Group on Nonprofit Governance is a group of nonprofit leaders, experts, and practitioners dedicated to exploring issues of nonprofit governance in Central and Eastern Europe.

Founded in 2001 by participants in the BoardSource International Fellowship Program on Nonprofit Governance, the Working Group promotes good governance and develops resources for the region's nonprofit boards.

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Introduction

The Central and Eastern European Working Group on Nonprofit Governance has been exploring challenges facing nonprofit boards since its founding in 2001. Bringing together experts and practitioners from nine countries, the Working Group looks at governance from the unique viewpoint of nonprofit and non-governmental organizations (NGOs) in Central and Eastern Europe (CEE).

Our study of nonprofit boards in the United States has taught us that Western models of governance are often far removed from the reality of our own countries. NGOs in CEE work in an unusual environment shaped by the communist past and the difficult political, social, and economic transitions of recent years. But the needs and circumstances of individual organizations differ sharply, depending on local attitudes, experiences, and goals. Though common ground is not always easy to find, we consider it important to strengthen the NGO sector in this part of the world by providing a consistent, locally responsive framework for nonprofit governance. We see such a framework as both a practical need and a strategic necessity, helping our NGOs operate more efficiently while contributing to the larger goal of improved transparency and accountability in the NGO sector as a whole.

4a

So we set about drafting a set of guidelines that could promote a shared regional understanding of good governance while showing how to turn abstract theory into workable practice. This handbook is the result of our efforts. It is based on eight basic principles we consider essential to NGO governance around the world. These principles, expressed in the handbook's eight major headings, provide the basis for the guidelines for governance stated in the sub-headings and elaborated in the accompanying texts. The guidelines, and more particularly the sidebars, reflect our belief that efforts to apply the principles of good governance face different challenges in CEE than in the United States or elsewhere. Throughout the handbook we seek to address the specific environment of CEE and offer solutions to the special challenges our NGOs face.

We believe that the handbook can serve as a guide to good governance throughout CEE, no matter what the stage of maturity of an organization or its country's NGO sector. We know that the guidelines may seem suited only to larger NGOs working in a supportive environment and able to embrace a fairly complex operational approach. We agree that some of the advice in these pages may seem difficult to implement where the law is imperfect and local attitudes to governments vary. And we understand that smaller and newer NGOs—those with volunteer staff, tiny budgets, and informal governing bodies of just two or three friends—will be tempted to set aside the guidelines as overly ambitious or too much trouble for their simple operations.

But we believe that every NGO has the responsibility to think early and deeply about its governance practices. Good governance established early sets a positive course for an NGO's development for years to come, by encouraging organizational stability and balanced decision-making. Good governance also testifies to the integrity of a country's NGO sector. Engaged and responsible governing bodies set the standard for leadership and in their own behavior express the fundamental values our NGOs stand for. In this sense they are no less important to NGOs than to the private and public sectors.

4b

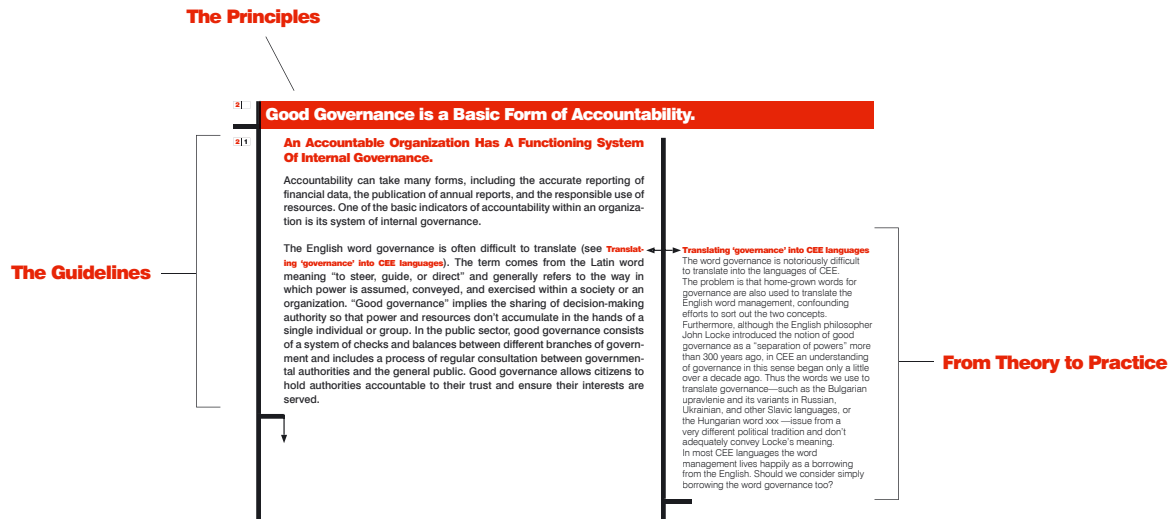
Therefore we encourage both new and mature NGOs to use this handbook, at the very least, as a guide for their future development. We welcome your commitment to strengthening NGO governance in CEE and we wish you the greatest success in achieving this goal.

—The Central and Eastern Working Group on Nonprofit Governance

About Using This Handbook

This handbook offers several different types of information. The main headings state generally accepted **Principles** of nonprofit governance. These principles are the point of reference for **Guidelines** for good governance, set forth in the sub-headings and elaborated in the accompanying text. Sidebars show how to go **From Theory to Practice** in implementing the guidelines, often in a regional context. In the extra lined spaces you can record notes, comments, and ideas about applying the guidelines to your own NGO.

Organizations seeking to strengthen their governance may wonder where to begin putting the advice contained in this handbook into effect. A first step is to use the **Implementation Checklist** near the end of the handbook to assess your organization's governance capacity. Thereafter a gradual approach may make the most sense, with steps prioritized and introduced one by one according to your organization's needs. See **Getting Started in Good Governance** for more suggestions about strengthening governance at your NGO. The **Resources** listed at the end offer further information about NGO governance in CEE.



NGOs are accountable to their communities.

NGOs are committed to the highest level of accountability.

NGOs are founded on the principle that citizens have a right to associate freely. Most countries in CEE acknowledge this right in their constitutions and through legislation. They may also affirm it by extending direct or indirect financial support to NGOs, which can include full or partial exemption from taxes. In return for this support, NGOs pledge to pursue activities that meet a public or community need rather than the private profit-making interests of owners or stockholders.

As long as they benefit directly or indirectly from public-sector support, NGOs are expected to demonstrate a high degree of accountability to their surrounding community. This community includes members, beneficiaries, donors, the government, and other stakeholders or constituencies. Even membership organizations have the responsibility to be accountable to the larger community to the extent that they are directly or indirectly dependent on its support.

NGOs should behave accountably even in countries where the general public doesn't expect it or the legal or political environment isn't supportive of the NGO sector. Throughout CEE, a so-called "accountability gap" exists in that NGOs often feel little pressure from stakeholders to behave accountably—donors don't ask how money is spent, or beneficiaries don't ask who funds an organization and why. However, the best NGOs view this accountability gap as all the more reason to prove they deserve their special privileges. By behaving responsibly and responsively, an NGO demonstrates its commitment to serving the public interest (see **What is accountability?**).

What is accountability?

A popular dictionary defines "accountability" as "an obligation or willingness to accept responsibility or to account for one's actions." The first recorded use of the word in this sense in English was in 1794—an era of new thinking about the public interest, civil society, and the nature of good governance.

5b

For an NGO, being accountable means demonstrating regularly that it uses its resources wisely and doesn't take advantage of its special privileges to pursue activities contrary to its nonprofit status. An accountable NGO is transparent, readily opening its accounts and records to public scrutiny by funders, beneficiaries, and others.

Through these acts of accountability, an NGO expresses its commitment to democratic values and, over the long term, contributes to the building of civil society in CEE.

2 Good governance is a basic form of accountability.

2 1 An accountable organization has a functioning system of internal governance.

The English word “governance” comes from the Latin word meaning “to steer, guide, or direct.” The term generally refers to the way in which power is assumed, conveyed, and exercised within a society or an organization. According to Western political theorists, “good governance” is a sharing of decision-making authority so that power and resources don’t accumulate in the hands of a single individual or group.

In the public sector, good governance is based on a system of checks and balances between the different branches of government (legislative, executive, judicial). It is understood to include a process of regular consultation between governmental authorities and the general public, so that citizens can hold authorities accountable to their trust and ensure their interests are served.

In nonprofit organizations, good governance works in much the same way. **An organization exercises good governance when it has an internal system of checks and balances that ensures the public interest is served.** Good NGO governance is based on the distinction between organizational entities (management and the governing body) and the distribution of decision-making power between them. This arrangement helps restrain and moderate the control of any one person or group, ensure the organization’s resources are well managed, and safeguard the NGO’s public-service orientation (see **What is good governance?**).

→ What is good governance?

The Working Group on NGO Governance in Central and Eastern Europe defines good governance as **“a transparent decision-making process in which the leadership of a nonprofit organization, in an effective and accountable way, directs resources and exercises power on the basis of shared values.”**

6a

2 Good governance is a basic form of accountability.

2 1

In Central and Eastern Europe, the English word “governance” can be nearly impossible to translate (see **Translating “governance” into CEE languages**). The connotations of local terminology may differ markedly from the English word with its specific traditions. Even more confusing, the same words are often used in CEE to describe the different functions of the staff and the governing body. NGOs can take the first step towards strengthening their governance by looking at the words they use to describe the work of various actors in the organization and making sure they are sufficiently distinguished.

Notes:

Translating “governance” in CEE languages.

The word “governance” is notoriously difficult to translate into the languages of CEE. A major problem is that local words for “governance” are often used to translate the English word “management,” too, confusing the difference between the two concepts.

Furthermore, although the English philosopher John Locke introduced the notion of good governance as a “separation of powers” more than 300 years ago, an understanding of governance in this sense was (re)introduced to CEE only a little more than a decade ago. Thus the words we use to translate “governance”—such as the Bulgarian “upravlenie” and its variants in Russian and other Slavic languages—come from a very different political tradition and don’t adequately convey Locke’s meaning.

This confusion can make thinking about governance difficult—and complicate efforts to separate the functions of boards and staff.

6b

Good governance has a formal structure.

An NGO's basic documents formally establish its governance structure.

The basis for NGO governance is usually a country's legal code, which assigns an internal governance structure depending on the type of organization (see **Basic forms of NGOs in CEE**). More specifically, an organization's governing body (or bodies) should be identified as required by law in its "basic documents"—that is, the act of incorporation, statute, charter, and other government documents. Explicit designation of the governing body by name is important, for it clarifies where fundamental decision-making and oversight responsibilities reside in the organization. **An explicit governance structure is the first step toward establishing a stable and predictable framework for accountability in the NGO.**

In CEE several factors can complicate an NGO's governance structure. NGO laws in the region, which are still being refined, are sometimes vague, contradictory, or silent about governance and the responsibilities of boards. Or different kinds of governing bodies may be mentioned in the law with no explanation about their purpose or authority. As a result, legal responsibility can be poorly assigned, and an NGO's board may have no discernable duty other than to exist at the time of registration.

A second complication is the structure of associations and foundations. Many associations in CEE don't function as true membership organiza-

Basic forms of NGOs in CEE.

There are generally two legal forms of NGOs in CEE: associations and foundations.

Associations are membership-based organizations whose members constitute its highest governing body. They can be formed to serve the public benefit or the mutual interest of members. Regulations vary as to who and how many persons may found an association. In Romania and Latvia, legal entities may found an association; in Macedonia, they may not. Hungary requires ten founders for an association, Estonia requires only two.

Foundations traditionally must have property dedicated to a specific purpose. Foundations do not have members. Instead they are governed by a board of directors that is appointed by the founders and is often self-perpetuating. In some countries, foundations may serve private purposes, but in many they are required to serve the public benefit only. Some countries specify a minimum amount of capital for registration. The required duration can also vary: in Slovenia and Hungary,

3 1 Good governance has a formal structure.

tions—they have assumed this form merely for purposes of registration. Although the basic documents may identify the general assembly as the highest governing body, in reality it meets rarely and performs few governance functions. Between annual meetings a separate body, often known as the executive board, may assume a more active governance role, but its duties, too, can be poorly defined. Both the general assembly and executive board, moreover, are often composed of senior staff members and thus differ little from a senior management team. In foundations, similarly, there may be confusion over who actually governs, with the founders themselves retaining certain rights and privileges that are, strictly speaking, of a governance nature. All of these arrangements can leave the true governance function shifting among various groups, adequately performed by none.

Finally, many NGOs in CEE have the dual governance structure that is common in European corporations. In this arrangement there are actually two governing bodies: a supervisory board, which mainly oversees the organization's financial affairs, and a separate body, often known as the management board. This dual structure has the main advantage of integrating governance into the daily life of the organization. But it can pose problems if the management board is composed mostly of staff, as is usually the case. Even though they understand the organization well, the presence of staff members on a governing body blurs the distinction between governance and management and quickly leads to conflict of interest (see Section 4.1). The situation is even more problematic if the

foundations are assumed to be permanent, while in Estonia, they may be established for a limited time.

Other forms. About half of CEE countries have at least one other form of NGO. In distinction to foundations, defined as primarily grant-making organizations, some countries also recognize service-providing NGOs. These are a separate form of non-membership, grant-seeking, or income-generating organizations - usually private hospitals, institutes, training centers, and the like. They have a variety of names, ranging from "public benefit companies" in the Czech Republic to "centers" in Albania.

All NGOs are implicitly or explicitly bound by the "non-distribution constraint"—in other words, they can't distribute profits or net earnings as such to any individual.

7b

Good governance has a formal structure.

supervisory board meets only once or twice a year. With such infrequent activity the supervisory board easily grows dormant and neglects its tasks, depriving the NGO of a true internal oversight function.

When these complicating factors are present, an NGO should strengthen its governance by clarifying and simplifying the relationships among its leadership entities. Even when the laws are vague, they don't inhibit or forbid good governance, and there is much an organization can do to strengthen its governance structure, starting with its basic documents (see **What should the basic documents say about governance?**). Left untended, an ambiguous governance structure can lead to internal conflict or even a breakdown in leadership altogether. A well-crafted governance structure, on the other hand, strengthens accountability and sets the stage for an efficient, well-run organization.

Notes:

→ **What should the basic documents say about governance?**

Your NGO's basic documents—act of incorporation, statutes, charter, and rules of operation—can establish a basis for good governance by including this information about your governing body or bodies (in addition to any other information required by law):

- Name of governing body or bodies
- Highest and principal governing bodies, with their relationship to other organizational entities
- Basic responsibilities and powers
- Duties of individual board members, such as loyalty and confidentiality
- Minimum number of board members
- Membership rules (including eligibility, suspension, and expulsion)
- Terms of office (length of terms, limits on re-election)
- Minimum number of board meetings per year
- Method of convening meetings (who initiates, how to set dates, who decides agenda, etc.)
- Decision-making procedures (number needed for quorum, how to vote and record decisions)
- Conflict-of-interest provisions

Good governance has a formal structure.

The board is the principal governing body.

No matter what the governance structure of the organization, there should be one governing body that wields constant and consistent oversight and decision-making authority. This principal governing body is not always the same as the highest governing body. In membership associations, for example, the highest governing body is always the general membership, whose decisions and instructions always outweigh those of other parts of the organization. But if the membership meets only for several hours a year, it can hardly be said to wield “constant and consistent” governing authority. A second, principal governing body is usually needed to perform governance duties between meetings of the general membership. This principal governing body may be known as the executive board or board of directors. In this handbook we call it simply “the board.”

The distinction between the highest governing body and principal governing body is important, since people working for NGOs in CEE sometimes assume that if they have a general membership they don’t need—or even can’t have—any other governing body. But all NGOs need a regularly engaged governing body that can lead the organization between meetings of the general assembly, and there is usually no legal barrier to establishing such an entity. The basic documents of association should make it clear when the general assembly delegates governance responsibilities to a second, principal governing body (see **More than one governing body? How they can work together**). An organizational chart showing the flow of authority from the governing body or bodies through the chief executive to the staff is another useful tool for clarifying the structure of these relationships.

More than one governing body? How they can work together.

It is common among CEE NGOs to have more than one body with leadership responsibilities. These bodies can work together productively if your basic documents and policies are clear about the main role of each and the lines of delegation and reporting among them. While their names may vary, there are four types of basic bodies having separate leadership roles:

- **Highest governing body: ultimate decision-making.** In associations, the most important decisions are often made by the membership assembly. Such decisions are crucial to the life of the NGO and involve such things as the mission or dissolving the organization. The responsibility to make such decisions can’t be delegated. But the highest governing body can delegate other responsibilities to a principal governing body.
- **Principal governing body: governance.** Usually there is a separate body that exercises ongoing governance functions, such as setting the organization’s policies and strategies. This is generally what we call a “board.” This body often delegates actual implementation of its

Good governance has a formal structure.

The board makes decisions collectively.

The main value of a board is that it's a collective leadership body. **The board represents the interests of the NGO's multiple stakeholders, and its collective leadership helps an organization stay focused on the mission and resist the special agenda of particular individuals or groups.** In this sense, the board complements the leadership of the chief executive, who brings the benefits of a particular individual's talents, vision, charisma, and control.

Collective leadership has practical benefits, too. As an assembly of many, the board has a breadth of perspective and depth of experience surpassing the abilities of a single leader. But as a body of one, the board can synthesize multiple views into shared visions and goals, thus serving as a force for unity in the organization.

Collective leadership is often not easy, and the basic documents should help the board function effectively as a team by setting parameters for group decision-making. For example, they should stipulate that the board makes decisions only in formally constituted meetings at which a majority of members (known as a quorum) is present. The basic documents should specify how many members constitute a quorum, how meetings are called, and the manner in which decisions are taken and recorded. Such guidance helps the board perform its tasks consistently and avoid doubts about the validity of its decisions.

decisions to a professional staff (paid or unpaid). Although it is accountable to the highest governing body, it is authorized to make many decisions on behalf of the NGO.

- **Management team or chief executive: management.** A separate body or person often executes the decisions of the highest and principal governing bodies and manages the NGO's everyday activities. In associations, this body is usually composed of senior staff. In foundations, one person, such as an executive director, usually performs this role. In either case the body or person is accountable to the governing bodies above it.
- **Supervisory board: control and audit.** Sometimes NGOs have an additional body that monitors how decisions are made and executed, how funds are used, and whether laws are observed. This supervisory board is usually independent of the board (as in Hungary and Poland) and reports directly to the highest governing body. To make informed decisions it usually has the right to attend board meetings, examine documents and observe activities of the NGO, but has no voting rights. The board chair will usually have to ensure that the supervisory board is fully informed and able to fulfill its duties.

Good governance has a formal structure.

Beyond these basic standards, the style of board decision-making can vary greatly. It is usually a product of the organizational culture as well as the chemistry among individuals around the table. Some boards work best by consensus while others take a vote on every decision. Either method, or a combination of the two, is acceptable as long as it allows every board member to take part on an equal footing. The manner of making a decision should always be recorded along with its outcome in the meeting minutes.

Boards should only rarely take decisions outside of meetings, usually in times of emergency. Decisions made by email or by a sub-group of the board, although perhaps more convenient, may violate the basic documents and can be open to question or disqualification. When it must make decisions outside of meetings, the board should rely on a policy set in advance and record the decisions for formal approval at the next meeting (see **Sample policy: board decisions outside of regular meetings**).

Notes:

→ **Sample policy: board decisions outside of regular meetings.**

Most basic documents state that a board can conduct its business only in formal meetings at which a quorum of members is present. But what if an emergency comes along? Immediate action is needed, but board members don't have time to meet in person or not enough members show up to a quickly called session.

In extreme situations, the board must, of course, be able to make decisions to protect the interests of the NGO or its employees. An explicit policy on emergency decisions allows your board to act responsibly even in times of emergency. The policy should grant the board the ability to take emergency action after consultations by phone or e-mail or at a meeting that less than a quorum of members attends.

When the board must act in this way, its decisions should be ratified at the next board meeting and noted in the minutes.

Good governance has a formal structure.

Individual board members have specific duties.

Although board members govern as part of a collective leadership body, they have individual duties as well. In its paper “Integrity, Good Governance, and Transparency,” the International Center for Not-for-Profit Law points out that board members “have a duty to exercise loyalty to the organization, to execute their responsibilities to the organization with care and diligence, and to maintain the confidentiality of non-public information about the organization” (see www.icnl.org). Fulfilling these duties means board members are expected to attend meetings regularly, contribute actively to deliberations, and put the NGO’s interests above any other personal, professional, or organizational interests. A detailed set of written expectations can help individual board members understand their role and how best to fulfill it (see **A position description for board members**).

Beyond these basic duties, boards may delegate additional, specific duties to individual members. The financial expert who serves on the board, for example, might be authorized to oversee the preparation of the annual budget, or the lawyer on the board may be given broad authority to oversee the NGO’s legal affairs. Such delegation must be made clear by the board and shouldn’t be automatically assumed according to the professional qualifications of individual board members. And it isn’t enough for board members to limit their board service to specialized professional services. The first and most important duty of every board member is to contribute to the collective deliberations of the board as a whole.

A position description for board members.

Even though board members shouldn’t be paid for their work, a written “job description” is still useful. It can help board members understand how to behave on the board and prioritize their activities. It’s also a good tool for letting new board members know what’s expected of them. Items to include:

1. Know and support the mission of the organization.
2. Attend board meetings regularly.
3. Prepare for meetings in advance.
4. Maintain confidentiality.
5. Offer informed and impartial guidance.
6. Avoid special agendas and conflicts of interest.
7. Participate in committees and special events.
8. Support the chief executive.
9. Take part in resource development.
10. Promote the organization in the community.

10a

The special role of founders.

Dealing with founders is a delicate issue. Many NGOs in CEE are still dependent on the individuals who started up the organization, either because they have special legal rights (as in Hungary) or because they occupy leadership positions in the NGO, such as chief executive or

Good governance has a formal structure.

Despite their good intentions, it is sometimes difficult for board members who are deeply engaged in the organization to remember they have no personal authority aside from their participation on the board. The board member who volunteers to work on the NGO's programs, for example, isn't entitled to tell program staff what to do simply because she's a member of the board. Founders of NGOs in CEE often present a special challenge, since they can have a personal authority far surpassing that of other board members (see **The special role of founders**).

The chief executive, working with the chair, will want to make sure that board members understand the nature of their authority and don't overstep its bounds by trying to directly manage the NGO. A self-assessment may be the best place to start (see Section 6.5).

Notes:

chair. In the latter case, the founder's personal authority often goes beyond the rights and duties of the specific position. The founder's opinion simply carries more weight, perhaps because there is a natural feeling of gratitude or obedience to the "parent" of the NGO or the founder has unusual professional influence. For their own part, founders often treasure their work with the organization they started and are prepared to stay with it indefinitely. Others are understandably reluctant to point out when it is time for their role to change.

Yet NGOs with a strategic perspective realize that they must gradually abolish special privileges for founders, unless they are mandated in the law or the statutes. No matter how valuable, a founder who acts and decides outside of the rules that apply to others can unintentionally prevent healthy operations from taking hold and inhibit the growth of the organization.

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One way to keep a founder from holding back your NGO's development is to encourage her, if she is a board member, to work as an equal with the rest of the board. For example, the board can affirm that decisions are only made at meetings at which a quorum is present and introduce fixed terms of office. Such changes must be brought up diplomatically, so founders don't assume they're under attack or the organization is ungrateful. Be sure to explain that the changes are meant to strengthen the NGO and will apply equally to everyone. Some NGOs find it helpful to carve out a new, high-profile but non-decision-making role for founders—for example, as head of an advisory council.

Good governance has a formal structure.

The board has a chair.

Like any group, a board cannot function effectively without a designated leader. The chair is mainly responsible for coordinating the work of the board and serving as the liaison with staff, particularly the chief executive. The chair's duties typically include convening and leading meetings and appointing committee members (see **The duties of the chair**). The chair doesn't have any special decision-making powers unless they are explicitly delegated by the full board.

Various methods can be used for appointing the chair—for example, election by the membership of the organization or the board itself. Among the qualities a chair should have is the ability to lead a discussion fairly yet forcefully and stick to prescribed procedures and the preset agenda. Good time management skills and strategic vision are also essential. To avoid misunderstandings and conflict, the chair's method of appointment and main responsibilities should be described in the basic documents.

Notes:

→ The duties of the chair.

The role of the chair is not always self-evident, but usually the last thing a chair wants to admit is uncertainty about the job. A big help is to have a set of basic expectations available in writing. These might include:

1. Scheduling board meetings.
2. Setting meeting agendas (with the chief executive).
3. Leading discussions at meetings; especially following agendas and observing all rules of order.
4. Coordinating any board activity outside of meetings.
5. Appointing committee chairs and, time permitting, serving ex officio on all committees.
6. Overseeing the hiring and performance evaluation of the chief executive.
7. Ensuring the board performs its job well and evaluates its own performance.
8. Representing the organization in public.

Good governance involves the separation of governance and management.

The board is distinct from the staff.

A basic tenet of good governance is that management and governance are separate. The underlying assumption is that this separation makes possible the checks and balances that ensure the organization is well run and important decisions are made with the public interest in mind.

To understand the logic of this assumption, it helps to look at the contrasting situation. A board that isn't separate from management—that is, a board whose membership is the same as, intimately connected to, or dominated by staff—faces real or potential difficulties in representing stakeholders' interests fairly. These difficulties arise because the people making decisions and evaluating their appropriateness are the same as (or are close to) the people affected by or actually carrying those decisions out. For example, a staff member on the board may take part in a decision about his own salary based on an assessment of his own performance! The potential for abuse in this situation suggests that **a board that isn't separate from management functions in a perpetual state of real or perceived conflict of interest, because oversight and executive functions are mixed** (see **Why staff voting on the board is a conflict of interest**).

On the other hand, a board that is independent of management avoids automatic suspicions that its actions are motivated by something other

Why staff voting on the board is a conflict of interest.

Imagine that an NGO must decide on whether to bid for a major agency tender. The project is not fully in line with what the NGO has done so far, but if it wins the bid, staff salaries are covered for several years. The matter is sent to the board to decide, since it touches on the NGO's mission. If staff members vote on the bid and the board decides to pursue the bid, others may assume—rightly or wrongly—that the decision was motivated purely by the staff's desire to secure its own income, rather than what's good for the NGO's mission.

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To take another example: in an NGO experiencing problems with the services it offers, the staff responsible for coordinating the programs—including the chief executive—can't see that the problems are due to their own performance more than any external causes. Independent board members not only see the source of the problem more clearly, but are better able to make tough decisions about letting staff members go.

These and similar situations show why a board composed even partly of voting staff members can't act persuasively as a check and balance to managerial interests. (Boards face other forms of conflict of interest, too. For more on the topic, see Section 6.3.)

Good governance involves the separation of governance and management.

than the public good. The board acts as a check on managerial control but does not run the organization or dispose of its resources directly. This distinct function becomes more important as resources increase and operations grow in complexity: an active and independent board reassures donors, beneficiaries, and other stakeholders that the NGO is professionally run and conflict of interest is not rampant throughout the organization. On a practical level, too, an engaged board shoulders key leadership duties a chief executive finds he can no longer do alone. The checks and balances implicit in separate managerial and governance functions, therefore, are not just a matter of philosophical orientation, but have practical benefits, too.

Unfortunately, in CEE, where many NGOs are still maturing, their supporters do not—as yet—pay much attention to issues of governance. As a result, there is little pressure on NGOs to separate their governance and management functions, and it is not uncommon to find boards composed largely or even exclusively of staff (see **The results of research: staff on boards**). In small or newer organizations, moreover, the division of governance and management can be very difficult to put into practice. If financial and human resources are limited, board members often volunteer to perform the duties of staff, blurring the distinction between them. Separating these positions and finding enough qualified people to fill them can seem like an impossible task: the pool of available talent in most CEE countries just doesn't seem big enough to assign different individuals to board and staff roles.

→ **The results of research: staff on boards.**

Perhaps because of the registration process, NGOs in CEE often start with staff and board positions occupied by the same individuals. In this respect the situation in Ukraine is fairly typical. A recent survey* showed that chief executives are members of the governing body in more than 90 percent of NGOs. Of these, over three-quarters are also chairs of the board! More than two-thirds of NGO boards include other staff members, too, nearly always with voting rights.

Yet inspired by corporate scandals, more and more donors and other supporters in Ukraine and elsewhere are asking about the quality of an NGO's governance. Those who provide resources seek guarantees that their "investment" will be protected and put to its intended purpose. As in the corporate world, supporters view independent board members as the first guarantee of sound operations and a protection against malfeasance or conflict of interest.

The lesson: good governance practices can improve operations while helping your NGO attract new resources.

**Nonprofit Governance Practices in Ukraine (see Resources).*

Good governance involves the separation of governance and management.

Another challenge to governance in CEE is that many NGOs that have started with governance and management intertwined see no reason to change things if the organization is doing well. Activating a board within a growing but still reasonably efficient organization can seem like an unnecessary or even foolhardy exercise. Indeed, CEE chief executives who have done a fine job building their NGOs often ask why the board should even be a concern (see **The chief executive's lament (part 1)**). To the organization that has performed well with minimal board involvement, stirring up the board when things are on the brink of success threatens to throw everything into chaos. For this reason, it's not uncommon to find that the most successful chief executives are the most dismissive about their need for a board.

However, a far greater risk lies in not activating the board as the organization matures. Eventually, even a dominant chief executive finds that the bigger the budget, the greater the expectations of stakeholders that organizational resources are expertly managed and appropriately used. This may prove to be especially true when organizations must transition from a reliance solely on foreign donors to diversified local funding. Stimulating giving on a local level is unlikely to succeed if stakeholders are not convinced of the basic fact of good operations and a public service orientation.

Organizations that aspire to grow, therefore, recognize that long-term sustainability demands good governance practices, beginning with the separation of the board from the staff.

→ **The chief executive's lament: "Why do I need a board?" (part 1)**

This is from the chief executive of a small NGO in Poland:

"I never saw any need for a board. Of course I had a board that met twice a year, but they didn't do anything. And why should they? Our programs were going well and we never had any problem attracting funding.

"But when Poland joined the EU our funding streams started to change. We had to refocus our mission and go after new money, or else collapse. All of a sudden donors were asking to see our strategic plan, logical frameworks, and evaluation criteria.

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"I had never given these things much thought and started to panic. But fortunately I found out that two of my board members had some experience with EU proposals from their own small businesses and were willing to help me out.

"Together we thought through a new organizational structure, a project plan fitting EU requirements, and a system for evaluating our programs. I don't know what I would have done without them."

Good governance involves the separation of governance and management.

The board governs and the staff manages.

The separation of governance and management involves a division of both duties and personnel. The usual rule is that **management runs the organization from day to day, while the board sets policy, exercises oversight, and strategically guides the organization.** Most models of governance emphasize that the main areas of board responsibility are (1) safeguarding the mission, (2) setting values and standards, (3) ensuring resources, and (4) extending outreach (see **The board's basic business**). Of course, this doesn't mean that the staff has nothing to do with strategy or that board members never contribute on the day-to-day level. What it does mean is that there is a fine but important line between these two areas, which must be jealously guarded by both sides.

One way to maintain the distinction between governance and management is to ensure the same people do not perform both jobs. This expectation may seem counterintuitive, since the staff usually knows more about the NGO than the board and thus may be in a better position to provide strategic direction or evaluate the NGO's performance and needs. However, as pointed out already, troubling conflicts of interest arise when staff members serving on the board approve their own budgets, set their own pay, assess their own programs, and otherwise try to monitor and oversee their own activities. This is the reason that staff members should never, ever, serve as voting members of the board.

→ The board's basic business.

No matter what the size, mission, age, or budget of an NGO, its board's basic duties are to set policy, exercise oversight, and provide strategic direction in the following areas:

- **Mission:** The board safeguards the NGO's mission by making sure there is a clear sense of mission shared throughout the organization, a good mission statement, and appropriately planned and evaluated programs and services.
- **Values:** The board defines organizational values and sets the standard for professional conduct through its own behavior as well as in the policies it establishes for others to follow.
- **Resources:** The board ensures the NGO has adequate resources—human, material, and financial—by hiring the chief executive, monitoring the financial health of the organization, ensuring the acquisition of sufficient resources, and assisting in resource mobilization.
- **Outreach:** The board promotes the NGO in the community and serves as a link with members, donors, beneficiaries, and other stakeholders.

Good governance involves the separation of governance and management.

Many NGOs understand the wisdom of this point until it comes to the chief executive. A board can rely so heavily on the chief executive that a seat at the board table seems only natural. There are many arguments for and against having the chief executive on the board (see **Should the chief executive be a voting member of the board?**). The solution that many NGOs rely on is to include the chief executive on the board as a non-voting member. Of course, in this case the chief executive will have to withdraw from discussions about topics that concern him or her directly, such as salary and performance assessment. And under no circumstances should the chief executive simultaneously serve as the chair of the board: such a concentration of power in the hands of one individual severely undermines accountability throughout the entire organization.

Notes:

→ **Should the chief executive be a voting member of the board?**

There are many reasons for and against this arrangement. Here are a few:

Pros:

1. Engages the board in the "real" work of the NGO.
2. Bridges the gap between strategy and implementation.
3. Promotes a true partnership between governance and management.
4. Elevates the responsibility of the chief executive and forces him or her to think strategically.

Cons:

1. Creates conflict of interest when the chief executive votes on issues in which he has a direct interest.
2. Strains the chief executive's relations with other members of the board when he votes against them on a particular issue.
3. Confuses the distinction between board and chief executive duties.
4. Causes donors and others to view the NGO as less accountable than it could be.

A common compromise arrangement is for the chief executive to serve as a non-voting member of the board. He should not take part in decisions concerning any issue in which he has a direct interest, such as his pay or other benefits.

Good governance involves the separation of governance and management.

The board delegates responsibility to the chief executive.

The board has the authority to steer and monitor the organization. But it meets only occasionally, and its members are busy individuals with many demands on their time. Facing such practical restraints, one of the most important ways in which the board discharges its duties is by delegating authority to the chief executive.

In doing so the board doesn't give up any of its own responsibility for setting policy, providing strategic direction, or exercising oversight. It remains the principal decision-making authority, and the chief executive is answerable to the board for his or her actions. However, within the restraints on chief executive authority set by the board, the head of management is free to run the organization as he or she sees fit, making nearly all decisions on a day-to-day basis.

The board both preserves its own authority and protects the chief executive by ensuring that the basic documents clearly reflect its delegation of powers to the chief executive. This explicit delegation can be reiterated in a written job description for the chief executive (see **A position description for chief executives**). The clarification of the hierarchical relationship between the board and the chief executive helps smooth cooperation between them and ease the tensions that inevitably arise, even in the best of relationships. It also keeps the board from relinquishing too much responsibility to the chief executive or, at the other extreme, from seeking to micro-manage things.

A position description for chief executives.

It's always a good idea to spell out the board's expectations of the chief executive in writing. Duties found in most chief executive job descriptions include:

1. Hiring, firing, and supervising the staff.
2. Managing and evaluating programs and operations.
3. Identifying, acquiring, and managing resources.
4. Preparing an annual budget.
5. Proposing policies and strategic initiatives to the board.
6. Communicating with stakeholders.
7. Promoting the organization in the community.
8. Supporting the board in its work.

Good governance involves the separation of governance and management.

Realizing this line of delegation is all the more difficult in CEE NGOs, where—often informally—it is common for the chief executive to exercise decision-making power alone. Although the organizational chart may imply otherwise, in practice the chief executive actually seems to delegate responsibilities to the board, thus reversing the usual relationship.

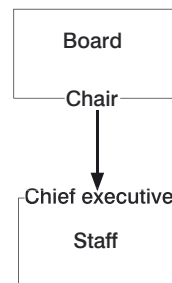
It takes an unusual degree of enlightened self-interest for a chief executive to recognize the benefits of shifting the power relationship and restoring the superior authority of the board. To accomplish this shift, the chief executive may need to educate and empower the board to assume its governance responsibilities, perhaps starting with a simple drawing of organizational relationships (see **Typical board-staff relationships**).

Many times, however, the formal and informal lines of authority will align only after the board has actually hired (or fired) a chief executive. For this reason, a truly successful chief executive may need to encourage the board to evaluate his performance and eventually hire his own successor! (See Section 4.6. below.)

Notes:

Typical board-staff relationships.

When the board is functioning, the formal flow of authority in an NGO looks like this:



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On the working level, however, the partnership between the board and staff often looks like this:



Both relationships can exist at the same time, ideally generating a positive tension that strengthens decision-making and deepens organizational capacity.

Good governance involves the separation of governance and management.

The board and chief executive work in partnership.

Although the lines of authority may be vertical, on a practical level the board and the chief executive work best together when the relationship is a close and cooperative one. A productive relationship between the board and the chief executive demands hard work, patience, mutual respect, and humor. Each plays a supporting role for the other, offering advice and encouragement when needed. The most important key to success is good communication, for which the chief executive and the board, especially the chair, share equal responsibility (see **A crucial partnership: the chief executive and the board chair**).

The chief executive owes the board accurate, thorough, and timely information about the NGO and its environment. He or she must be frank about the guidance needed from the board and about those times when the board is micro-managing. The board, for its part, should be clear and direct in the instructions, guidance, and feedback it offers the chief executive. The board must monitor the chief executive, but also mentor him or her. Board members should inquire, criticize, probe, and praise in such a way that the chief executive has no doubts about what is expected and feels motivated to do his or her best.

Notes:

A crucial partnership: the chief executive and the board chair.

Perhaps no relationship in the organization is more important than that between the chief executive and the board chair. A good partnership is the basis of solid and directed organizational leadership, while a bad one can be a nightmare—not only for the people involved but for the NGO as a whole.

Here are some suggestions for building a good rapport between these two key individuals:

1. Schedule a regular chat together, preferably in person.
2. Answer each other's phone calls and e-mails promptly. Not only is this common courtesy, but it shows that you take each other's concerns seriously.
3. Unless the matter is truly confidential, copy each other on e-mail exchanges with the rest of the board. Neither wants to feel left out of important communications.
4. **For the board chair:** Make sure that the chief executive is evaluated regularly and fairly. In fact, you should take the lead in this process, helping your chief

Good governance involves the separation of governance and management.

The board evaluates the chief executive regularly.

As part of its feedback to the chief executive, the board should review his or her performance regularly—preferably annually. The review should be based on predetermined criteria, such as the written job description and stated annual goals. The review will help the chief executive understand what the board expects and any areas for improvement. The review is important for establishing a basis for compensation and, when necessary, for documenting inadequate performance that may lead to dismissal.

As a practical matter, the chair usually takes the lead in conducting the chief executive's review. However, it is important that the board conduct the evaluation as a body. Board members can do this first by discussing the chief executive's performance among themselves, keying their comments to the job description and agreed annual goals. The chair, or the board as a whole, can then communicate the results of their assessment to the chief executive, along with recommendations and new expectations.

executive set annual performance goals and communicating the board's feedback.

5. **For the chief executive:** Demonstrate you value the chair's input. Asking for the chair's advice regularly can give you a useful view on the hardest parts of your job and let you know what your board is really thinking about.

Notes:

The board plans for chief executive succession.

Boards that are lucky enough to work with a talented chief executive are often the last to think of an eventual successor. Yet they ignore this question at their peril. **Many organizations in CEE have been faced with disaster when the highly regarded chief executive abruptly leaves** (See **When the chief executive leaves**). Any individual, no matter how indispensable, can suddenly fall ill, accept another job, or move to another town. With the ageing of our NGO leadership, moreover, a new generation of high-quality leaders will be needed in the region sooner than many expect.

Prudent leadership dictates that no matter what degree of trust the board places in the chief executive, it develop a plan for replacing that person—on short notice if necessary. The plan should include a list of possible candidates for the position, or at least a way to identify them. The board might want to consider preparing a senior staff member to meet this potential need. Outside resources or temporary management services can also be identified. The board should make sure that an up-to-date chief executive job description is available in writing.

If the situation warrants, the board should not shy away from frankly discussing with the current chief executive the need to develop a plan for succession. The chief executive will need reassurance that this effort does not reflect doubts about his or her performance. If properly consulted, the

→ When the chief executive leaves.

An organization in Bulgaria was known for its charismatic chief executive. After seven years at the top, her staff adored her and the NGO's programs were the best in the region. Imagine her board's astonishment, therefore, when she announced she was resigning, effective immediately.

"I just feel it's time to move on," she explained. An opportunity had come along that was too good to turn down. Within a matter of days she had moved to a new job in the West. She left behind an NGO that seemed to be thriving—until a quite different story began to unfold.

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The board had its first hint of trouble when the programs director, who had been asked to take over, called the chair to tell him that the financial records seemed incomplete. The former chief executive had handled the bookkeeping herself and often worked at home. The programs director was worried that she had left town without returning all the files to the office. This could be a problem, he said, since the first report on a major grant was due soon.

The chair urged the programs director to keep looking and let the board know what he found. Within days he called back to say

Good governance involves the separation of governance and management.

chief executive can play a useful role in defining the qualities and experience needed in the position, suggesting possible candidates, and even mentoring a replacement on the staff.

In case the chief executive does depart suddenly, it isn't desirable for the chair to step into that position, owing to conflict of interest. It's also not a good practice for chief executives leaving their positions to rotate onto the board. Many new chief executives find the presence of their successors on the board inhibiting or even frustrating, since those persons may tend to second-guess their decisions or forget they're no longer in charge. Finding another role for a departing chief executive, such as an honorary advisory position, is usually a better alternative.

Notes:

that the former chief executive still had sole access to the NGO's bank accounts. The staff had reminded him that salaries and rent were due, but he was unable to initiate payments. He had also discovered a letter from another donor asking for an explanation about how some grant money was spent. But there was no information about the grant in the files and he didn't know how to respond.

At this point the board realized that the former chief executive was not as perfect as she had seemed. Her careless handling of finances and grants had put the NGO on the brink of scandal—or worse. Quick action was needed to salvage the NGO's relations with donors and meet its obligations to staff and others.

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Fortunately this story has a happy ending. Within a matter of weeks the programs director pieced together the necessary financial information. The chair persuaded the bank to give him and the programs director joint control of accounts. Reports were filed and the staff and landlord were paid. The board appointed the programs director as chief executive.

One of his first acts as the NGO's leader was to write a job description for himself and spell out new financial procedures. He was determined that, when it was time for him to move on, he would not put the NGO in such a position again.

NGOs are mission-based organizations.

The board safeguards the mission of the organization.

NGOs differ from for-profits in that they are created to meet a need in the community or among members rather than earn a profit for owners and shareholders. Simply put, an NGO's mission is what it does to meet that identified need. The mission is usually linked to a set of basic, deeply held values, such as respect for the natural environment or aid to the poor. The mission and values inspire people to get involved in the organization while providing a common focus for its activities and goals. A declaration of the NGO's mission is usually included in its founding documents.

One of the basic responsibilities of the board is to identify, articulate, safeguard, and promote the NGO's mission (see **No mission statement? Here's where to start**). **In watching over the mission, the board, in a sense, protects the very heart of the organization.** The board's most important duties in this respect are to ensure the mission meets the test of fulfilling a community or members' need and the NGO honors the mission in everything it does. The board must also make sure the mission is realistic in scope, cost, and expected impact.

The board should see to it that the mission is expressed in a concise and convincing mission statement. The mission statement is an informative and motivational message for multiple audiences, including beneficiaries, volunteers, donors, media, and staff. The mission statement provides a point of reference for planning and development efforts and brings unity

No mission statement? Here's where to start.

If your NGO hasn't gotten around to writing a mission statement, ask your board to take the lead in crafting one. It's a great way to unite the board around a common vision while producing a consistent message for all your internal and external communications. Writing a mission statement can be as easy as following these steps:

Step 1: Set aside two hours for a focused discussion, ideally led by a skilled facilitator. Be sure to include the chief executive and senior staff.

Step 2: At the meeting, ask yourself these questions, first individually and then as a group:

- What kind of organization are we?
- What needs do we address?
- Who are our beneficiaries?
- What do we do and how do we do it?
- Where do we do it?
- Why do we do it?

Step 3: Try to reach a consensus about your answers. If this is not possible, you

NGOs are mission-based organizations.

to programs, communications, and other core activities. The board should make sure the mission statement is known to and embraced by everyone in the organization—starting with board members themselves.

The board should also review the mission regularly to ensure it aligns with existing or planned activities. A misalignment between mission and programs can emerge for various reasons—perhaps the need for the original service no longer exists, or available funding has led to “mission creep,” or activities that are marginal to the primary mission area. The board should confirm periodically that the NGO is still carrying out the original purpose expressed in the basic documents—and, of course, that the organization isn’t engaged in any illegal, unethical, or non-permitted activities. Through a regular review of the mission statement, the board can determine if a misalignment exists and what steps can be taken to bring mission and programs back into harmony.

Notes:

may have uncovered a basic tension in your organization that needs to be addressed.

Step 4: Express your consensus in one or two short, energetic sentences.

Step 5: Show your results to a few clients, staff, and some people not associated with your NGO. What do they think? Does everyone understand it? Does it touch their heart? If the answers to these questions are “yes”—then you now have a mission statement. If not, you need to work on the words some more.

NGOs are mission-based organizations.

The board supports the mission through effective planning.

Planning is a mission-directed activity that enhances accountability. Planning is a process of setting goals and articulating a strategy to achieve them through the acquisition and disposition of resources. It can take many forms: an annual budget, a staffing pattern, or a full-blown strategic plan. Whatever its shape or scope, seeing that planning is an effective and regular process is a basic responsibility of the board (see **Involving your board in planning**).

The board discharges this duty by making sure the staff sets realistic goals for itself and formulates logical steps for achieving those goals within a reasonable period of time. In other words, the board usually oversees and monitors the planning process rather than engaging in the fine details of planning directly.

Since it's removed from daily operations, the board can bring a valuable "big picture" perspective to planning by testing the staff's basic assumptions. The board can also ensure that the plan is actually put into effect and—when necessary—is adjusted, redirected, or even scrapped.

The larger the planning effort, the more involved the board usually is. The staff typically produces any final planning document.

→ Involving your board in planning.

Here's the experience of a Hungarian chief executive:

"As the head of a mid-sized NGO, I realized a few years ago that we needed a strategic plan. Donors were asking for one, and I saw the use of having a long-term blueprint. Although I thought it would be a staff project, the consultant who helped us suggested we include the board in the process, too.

"I knew this would be a new demand on board members and predicted they wouldn't be enthusiastic. After all, it was hard enough getting them to show up for meetings! But at a meeting facilitated by the consultant, our board members were surprisingly engaged. To my amazement, they had good ideas about where the NGO should be going and even offered to get more involved in fundraising.

"Afterwards I worked with the chair to draw up long-term goals for the NGO. The staff fleshed out the plan, then the chair and I presented it together at the next board meeting.

"Since then the board has insisted on being part of the planning process. Every year the board reviews the plan and updates the goals as needed. In our NGO, planning has become a board-driven process. I feel pretty good about that—I know that I can rely on them and don't have to take all the responsibility on myself."

NGOs are mission-based organizations.

The board supports the mission through regular evaluation.

Evaluation is the means by which the board confirms the organization is fulfilling its nonprofit mission effectively. The main value a board can bring to this area is, as in planning, direction and oversight (see **The board's role in evaluation**).

While the actual work of the evaluation may be performed by the staff or an outside consultant, the board ensures that the right questions are asked and the results are appropriately applied. The board should assert this role whether a comprehensive, organization-wide evaluation is undertaken or just a single component, such as finances, is assessed for efficiency or impact.

During an evaluation, the board should make sure that the reasons for conducting the evaluation are clear, relevant factors are assessed, and meaningful measurements are consistently applied. The board should review the outcomes of an evaluation and verify that recommendations, if appropriate, are implemented.

The board should also consider whether the outcomes have any implications for the NGO's overall direction, thus ensuring that a good evaluation feeds back into the planning process.

Notes:

The board's role in evaluation.

How can the board evaluate the work of an NGO?

Nonprofit work is unusually difficult to measure—there are no financial profits that indicate whether the NGO is doing its job. However, just as financial profit is the measure of success in business, "social profit" can measure the achievements of an NGO. So the first thing a board can do is identify the "social profit" the NGO expects to see as a result of its work.

The board can ask such questions as: What should change in society? What is the added value we want to achieve in the next few years? The board should focus on only a few major areas where impact is expected. By leading such discussions with staff, the board can help make sure that everyone in the NGO is working for the same goals.

Then the board should consider how to measure results by asking: a) What are the key indicators of the situation? b) What are sources of information to use in assessing the indicators? c) What is the current level of the indicators and what level do we want to achieve? d) How will we monitor our progress over time?

More mature NGOs will also want to look at a quality assurance system that encompasses a number of indicators related to the achievement of the mission as well as organizational conduct.

NGOs promote the highest professional and ethical standards.

The board articulates the professional and ethical standards of the organization.

NGOs are often held to a higher standard of behavior than for-profit entities. Because they receive tax exemptions and other benefits, NGOs are expected to demonstrate a commitment to the community, members, or other stakeholders that goes beyond the mission and is on display in exemplary behavior throughout the organization. The board makes sure the values and priorities communicated by the organization are those by which it wants to be known (see **Sample policy: code of conduct**).

The most important measure by which an NGO is judged is its adherence to legal requirements. The board must know what laws apply and whether operations are in compliance. If legal obligations are not being met, the board must ensure that necessary corrections are made. Even though specific responsibilities can be delegated to the chief executive, in nearly all countries in CEE it's the board that vouches for the legal compliance of the NGO.

The board monitors the standards of the NGO in other ways, too. The caliber of services provided, the salaries and benefits of top staff, and the accuracy of published information are but a few of the measures by which the public judges the integrity of an NGO. The board must make sure that poor or ill-considered performances in these areas do not damage an NGO's reputation beyond repair. **For example, is sloppy work or too much money spent on fancy offices prompting beneficiaries**

Sample policy: code of conduct.

Writing a code of conduct is a good way to think about the values your NGO stands for and the way they're realized in everyday actions. The existence of a code shows your organization has the courage to set standards of behavior and stake its reputation on them.

Of course this is possible only if the code does more than exist on paper. So be sure to distribute it to all staff and make it public on your NGO's web site. Then your board, working with the chief executive, must ensure the code of conduct is taken seriously throughout your NGO and, when necessary, is strictly enforced.

Given its importance, a code of conduct should be a board initiative, though its actual writing can be a board-staff or staff effort. In fact, discussion of the code's content is a good time for the board and key staff to come together and identify the values and goals they hold in common.

A web search will turn up many good codes of conduct to use as your model. At a minimum most of them address:

- The NGO's mission
- Accountability and transparency
- Use of resources
- Board leadership
- Management practices
- Avoidance of conflict of interest.

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to question whether resources are actually going to fulfill the NGO's mission? If so, the board can make sure steps are taken to correct such behavior or mistaken impressions (see **The chief executive's lament [part 2]**). Even the appearance of misplaced priorities can undermine confidence in the organization as effectively as an actual crime.

Board members often have different sources of feedback than staff about the NGO, and they should listen to what others are saying about the organization. Board members also set an important example themselves with their own behavior, and this should be beyond reproach. An NGO has the right to expect board members to display outstanding judgment and conduct, not just in the boardroom but throughout their professional lives. Some boards adopt a policy that allows them to expel board members who have committed a serious crime.

Notes:

→ **The chief executive's lament: "Why do I need a board"? (part 2)**

This is from the chief executive of a major national support organization in a Visegrad country:

"As the chief executive of a key organization in my country, I have developed friendly relationships with the key foreign donors supporting civil society. At one time, though, I had a real problem with the way a particular donor was behaving. Their representative was, in my view, unfair to our NGO and withheld support without a just reason.

I did not want to confront them directly because I felt that this would be seen as improper—as if I just wanted to ensure that my salary was paid. So instead I turned to one of our board members, who also knew the representatives of this donor personally. He raised the issue with them and found out that the donor suspected our organization of some unethical practices. Thank goodness he was able to clarify the situation in which a misunderstanding was involved, and we managed to sort out the problem.

"The intervention of my board member was critical – it was clear that he did not have a direct interest in acquiring the support we needed and deserved. In the end the donor resumed support for our NGO."

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Board members are not paid for their service.

Payment of board members is common in the corporate sector but is considered inappropriate in the nonprofit sector. Why? Because a board member's willingness to serve on a volunteer basis is seen as proof that the individuals who work with the organization are not motivated by opportunities for personal gain.

For this reason it's crucial that board members not derive, or be perceived as deriving, any direct or indirect benefit from their board service. When board members receive an honorarium, salary, or other tangible benefits, real or perceived conflict of interest emerges, because opportunities for personal gain may outweigh or be seen as outweighing the interests of the organization and its beneficiaries. Luxurious travel, employment opportunities for family members, and other perks and benefits (however small) can likewise suggest that the organization's ethical standards are lax or resources are going for purposes other than the nonprofit mission. Not only board members, but also their family, friends, and close associates, should avoid becoming the real or perceived beneficiaries of any direct or indirect gain from the NGO (see Section 6.3).

Unfortunately, in CEE it's often assumed that people will join the board of an NGO only if lured by some opportunity for material gain. However, an organization committed to the highest professional and ethical standards may decide—as many have—that **people for whom material gain is**

→ Why do board members serve on boards?

Here are some answers from around CEE:

"It may sound a bit crazy, but our board members serve out of commitment and nothing else. We don't get a penny for our work." (Hungary)

"The professional commitment and high level of services provided by the organization were the main reason I joined the board." (Ukraine)

"I derive enormous pleasure from the evidence of shared values within an international board of such diversity. Of personal interest to me is the spirit of adventure that has led members to explore the world beyond their own borders." (Czech Republic)

"I believe that as a board member I have the possibility to effect positive change in our organization and society at large. I want to be involved in making change happen." (Latvia)

"My board service is a small way of giving something back to the community I love." (Poland)

6 2 NGOs promote the highest professional and ethical standards.

6 2

an incentive to join the board may not be the most appropriate ones to recruit.

In reality there's a wide range of reasons that people assume board service once they understand what the organization is about (See **Why do board members serve on boards?**). These include feelings of contributing to an important cause, learning more about a field of interest, and utilizing personal skills to benefit others.

Board members sometimes ask whether it's appropriate to be paid for professional duties performed on behalf of the organization. A board member who's a lawyer, for example, may offer the NGO legal advice for which he or she normally would be paid. In general, paying board members for professional services is not a good practice. If there are compelling reasons for paying a board member, the transaction should be handled strictly in accordance with a conflict-of-interest policy. It's important that the board member involved not take part in any deliberation or decisions involving reimbursement and the evaluation of his or her professional services.

Board members may, of course, be reimbursed for reasonable expenses resulting from the execution of their board duties. (See **Sample policy: board member reimbursement**).

→ **Sample policy: board member reimbursement**

Although NGO board members are usually volunteers, this doesn't mean they must pay the costs of board service out of their own pocket. Organizations that can afford it can reimburse board members for travel, accommodations, special trainings, and similar expenses.

If this practice isn't spelled out in the basic documents, then the board should formulate a policy stating what board members can be reimbursed for, any reimbursement limit, and how they should document their claim. Of course, the existence of such a policy shouldn't prevent board members from donating their reimbursements back to the NGO!

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Notes:

6 NGOs promote the highest professional and ethical standards.

6 3 The board establishes a conflict-of-interest policy.

Rather than leaving matters of ethics up to personal judgment, all NGOs should adopt a conflict-of-interest policy. Such a policy is especially important for organizations in CEE, where, according to the Civicus Civil Society Index, the level of perceived mismanagement and corruption among NGOs is relatively high (see the Civicus country reports at www.civicus.org). By establishing a conflict-of-interest policy, the board enhances the reputation of the organization for accountability and transparency and can help to attract new resources. It is also a guide for dealing with situations that have the potential to reflect badly on the organization or individuals associated with it.

Conflict of interest exists when an individual faces competing choices that cloud or influence decision-making. Conflict of interest situations usually make the organization's interests seem less important than other more personal matters. A conflict of interest situation doesn't automatically mean that an individual has done anything wrong. The danger may be the appearance rather than actual fact of wrong-doing. Conflict of interest can involve anyone, but it's particularly common on boards whose members are influential people with many ties in the community (see **What is conflict of interest?**).

A conflict-of-interest policy helps the board monitor behavior within the organization and deal impartially with situations in which an individual's

→ What is conflict of interest?

Conflict of interest is a situation in which **outside interests affect or are perceived to affect the ability of an individual to make fair and impartial decisions on behalf of the NGO**. Conflict of interest can exist when opportunities for direct material gain are involved (also known as "self-dealing"); when close associates or family members stand to benefit; when personal, professional, or other affiliations interfere with fair and impartial judgments; or when personal interests or loyalties conflict and compete with those of the NGO. Conflict of interest can be both **real and perceived**: it includes situations in which self-interest seems to play a role even if no actual wrong-doing is involved.

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Common examples of conflict of interest include:

- When a board member of a grant-making NGO is also the executive director of a grantee organization.
- When a board member is also the executive director of an NGO that competes against the first NGO for funds.
- When a board member obtains an interest-free loan from the organization.
- When a board member's spouse is hired to provide professional services to the NGO.
- When a board member is related to a member of the staff.

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multiple interests compete or collide (see **Sample policy: conflict of interest**). The policy typically includes a requirement for full disclosure of potential or actual conflicts and abstention from deliberations and decisions in which an individual has a personal stake. Many boards require their members to sign conflict-of-interest disclosure statements annually. The policy should extend to employees, volunteers, as well as family members, business partners, and other close associates.

Of course, it is not enough for the policy merely to exist on paper. To be effective, the board must make sure that the policy is stringently enforced.

Notes:

Sample policy: conflict of interest.

A conflict-of-interest policy provides guidance for dealing with uncomfortable or unfair situations and helps protect your NGO's reputation. If your NGO wants to adopt a conflict-of-interest policy, you can find model policies on the websites of the Trust for Civil Society in Central and Eastern Europe (www.ceetrust.org) and the Civil Society Development Foundation Hungary (www.ctf.hu).

Conflict-of-interest policies should include these elements:

1. **Statement of purpose.** The policy states what's meant by conflict of interest and whom it affects.
2. **Guidance for conduct.** Board and staff members are required to disclose any real, perceived, or potential conflict right away. They should be banned from taking part in discussions and decisions involving situations in which they or their family members and associates could benefit in any direct or indirect way.
3. **Annual disclosure.** Board and staff members sign statements acknowledging their awareness of the policy and identifying any real or potential conflicts they might be involved in.

6 NGOs promote the highest professional and ethical standards.

6 4 The board sets the standard for professional conduct.

The professional standards of the board often reflect the degree of professionalism of the organization as a whole. A board that is polished and organized is typically at the head of an organization with a similar reputation. There are several areas in which the board should pay particular attention to its own professional conduct.

6 4 1
1
The board sets rules for its own operation. The board needs established procedures for doing its work. A “rule of law” on the board strengthens accountability, enhances efficiency, and provides a solid framework for collective action. The best guide for the board’s operations is a set of well-written basic documents, which give instruction in matters such as the selection of members, meeting schedules, and decision-making procedures. The board can formulate more detailed procedures through policy statements that cover any number of issues, from the place of board meetings to the format of agendas. All rules of operation for the board, whether in the basic documents or policy statements, should be collected together in a manual and distributed to board members (see **A table of contents for your policy manual**). A good chair will observe the rules of operations closely to help keep the board’s work focused and on track.

6 4 2
2
The board practices informed decision-making. Sound decision-making depends on two factors: accurate information and the ability to use it. Board members need complete and timely information, and just as impor-

→ A table of contents for your policy manual.

The following table of contents isn’t exhaustive, but it will give you an idea of the kinds of policies your board should consider introducing for its own operations.

1. Conducting board member elections
2. Handling board member resignation and removal from office
3. Filling vacancies on the board
4. Board member orientation
5. Board committees
6. Board self-assessment
7. Calling board meetings
8. Emergency decisions
9. Preparing and distributing the meeting agenda
10. Meeting attendance
11. Quorum
12. Voting methods
13. Preparing and approving meeting minutes
14. Drafting and approving new policies
15. Board member reimbursement

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2

tant, they need to know how to use it to guide and strengthen the organization. Board members should ask the staff to help them prepare for meetings by providing concise carefully chosen materials well in advance. The staff can help keep board members informed by distributing more general information from time to time (see **An information “diet” for your board**). Board members should not shy away from asking the staff for more or differently presented information if they feel it is necessary to form sound judgments. Moreover, **boards should not rely on the staff as a sole source of information**: they need to seek out other opinions and perspectives to make sure they are getting the full story. Every board member should be expected to come to meetings having read all background materials. This will allow meetings to consist of active discussion and decision-making rather than a boring presentation of information that board members can easily read on their own.

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3

The board holds regular and professionally run meetings. The basic documents usually specify the minimum number of annual board meetings. While there is no perfect number, once a year is rarely often enough for the board to discharge its full range of duties. Some boards find they can do their job in two or three long meetings a year, while others prefer to meet more often. Whatever the choice, board members need to be informed of the dates of meetings well in advance and have sufficient opportunity to prepare for them. Most NGOs find that board meeting attendance is better if a regular schedule of meetings is set at the start of the year. Meetings run more efficiently with a carefully prepared and strictly

An information “diet” for your board.

What do your board members need to stay well informed? Here’s some “food for thought” you can supply them on a regular basis.

- Monthly or quarterly summaries of your activities (brief—no more than one page!).
- Organizational newsletters and flyers (not just your own—also from competitors and partners!).
- Newspaper and magazine clippings about your NGO, its beneficiaries, and donors. Reports on programmatic or philanthropic trends in your community or region.
- Articles about your mission area or larger and related issues, such as EU enlargement.
- A list of Internet web sites where board members can get more information.

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6 4 NGOs promote the highest professional and ethical standards.

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spected agenda. Board members are more likely to attend meetings when active participation and real deliberation are expected (see **A sample meeting agenda**).

6 4
4

The board documents its proceedings. The record of board meetings is a basic instrument of accountability. Minutes are a form of institutional memory that enable an organization to work consistently and deliberately, without being vulnerable to an individual's special agendas or efforts to seize control. The board should appoint a person to keep a record of all formal proceedings, including their time and place, attendance, agenda, and decisions taken. These minutes are approved in draft by voting members of the board before they are distributed in final form. Policy decisions by the board should be gathered together in a policy manual, which is made available throughout the organization. The chief executive, working with the board chair, is responsible for ensuring that the policy manual is updated as needed.

6 4
5

The board has annual goals and action plans. Just as the organization develops a yearly operating plan for the year, the board should set annual goals for itself. These goals can relate to the board's own development or can be structured around the larger needs of the NGO, such as those outlined in a strategic plan. Yearly sessions to set board goals focus the board on its strategic objectives and keep it from getting mired in routine, minutia, or inertia. Outstanding boards find that a regular schedule of recurring activities, including budget approval, program evaluation, and

A sample meeting agenda.

Board of Directors Meeting
Monday, September 22, 2003
18.00 – 21.00

- 17.30 Arrival and refreshments
- 18.00 Chair's remarks
- 18.15 Approval of minutes of June 18 meeting (**action item**—see attachment A)
- 18.20 Chief executive's report (questions only—see attachment B for full report)
- 18.45 Board development committee report
 - Election of new members (**action item**—see attachment C for cv's)
- 19.15 Finance committee report
 - Summary of key indicators
 - Approval of lease on new office space (**action item**—see attachment D)
- 19.45 Strategic plan
 - Approval of 2004 strategic objectives (**action item**—see attachment E)
- 20.30 Approval of executive director's 2004 goals (**action item**—see attachment F)
- 21.00 Adjournment

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6 **NGOs promote the highest professional and ethical standards.**

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chief executive review, help it to structure its work effectively (see **Board activities to schedule annually**). The chair makes sure these regular activities find a place on meeting agendas and the board periodically reviews its annual goals.

6 4
6

The board has an efficient committee structure. Committees are a useful structure for working efficiently. A board committee can perform certain jobs that can't or needn't wait until the next board meeting: researching a particular issue (such as development opportunities), collecting information for presentation to the full board (for example, about the organization's finances), or making preparations so the board can perform an essential duty (such as electing new board members). Committees don't need to be composed only of board members—staff and outsiders, including experts in the field the committee is working on, can also be invited to take part. In fact, committees are a good way to identify and “test” future board members by involving them in the life of the organization. Standing committees are usually specified in the basic documents, while temporary committees or task forces are appointed ad hoc by the board chair. Each committee needs clear instructions about what it is to accomplish. Usually this takes the form of a written mandate, which includes meeting and membership guidelines and reporting timeframes. Above all, committees need to remember that their job is to work on behalf of the board rather than to make decisions on their own. The most common board committees are the finance committee and the board development committee.

Board activities to schedule annually.

Having a regularly scheduled cycle of activities will make sure that your board doesn't let any important duties slip between the cracks. Consider putting these items on a permanent calendar:

- Chief executive assessment
- Approval of the annual budget
- Appointment and orientation of new board members
- Formulation of annual board goals
- Strategic plan review and update
- Board fund-raising activities
- Board self-assessment
- Social activity for board members.

NGOs promote the highest professional and ethical standards.

The board looks after its own development.

Most boards find that turnover in their members has both disadvantages and advantages. The main disadvantage is inefficiency. Board members work hard to find common ground and work together as a team. Then, once achieved, the equilibrium is disrupted with the addition of new members or the loss of old ones. Furthermore, finding suitable replacements for board members can seem like an impossible task—the best people are busy, and the people with the most time to spare may have the fewest professional skills. In view of these challenges, it's not surprising to find many boards in CEE keeping the same members in place for years.

Yet the advantages of board member rotation are many. **New members bring new perspectives and resources, keep the board from stagnating, and allow the NGO to expand into wider communities.** Recognizing these benefits, boards in CEE are increasingly instituting a regular cycle of board member rotation to develop their governance capacity. Getting the right people on the board can demand unusual effort, and your organization should view it as an ongoing process. A few minutes devoted to board member recruitment at every board meeting are well worth the investment.

The NGO's basic documents should state the way new members are selected, the length of board terms, and the total number of terms a member can serve. Even if there are no stated limits, it's in the best interest of the

→ Tips for board member recruitment.

Perhaps no obstacle to an effective board is cited more often than the difficulty of attracting new members. Certainly, in many communities the pool of talent is impossibly small. But another reason for this dilemma may be that many NGOs believe the best board members are the most famous ones. They thus put themselves in the trap of targeting people who are least likely to have the time. Here are some tips that might lead to better success in putting together a first-class board.

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1. Recruit for skills as well as prestige. Rather than merely asking, "Who's the most famous person we can get?" ask instead "What professional skills does our board need to do a good job?" It's possible that the accountant on maternity leave will contribute more to your board than the former prime minister.

2. Define the role of your board before you recruit rather than after. Many VIP boards lack the time and interest to actually lead the organization. But once you establish that that's the job of your board, it's easier to pass over the high-profile

6 5 NGOs promote the highest professional and ethical standards.

organization to rotate members off the board after five or six years. The basic documents should specify any criteria for board membership, such as membership in the association. Professional skills, personal values, and freedom from obvious conflicts of interest are other qualities the board will want to consider in selecting new members (see **Tips for board member recruitment**).

Diversity is increasingly important, too, and not only in terms of age, gender, or ethnicity. NGOs in CEE have traditionally had boards composed solely of individuals from the nonprofit world. Today, as the pressures for fundraising increase and conflict of interest is a growing concern, the top organizations seek board members from the private and public sectors. New board members from outside of the usual circles help prevent “group think”, represent new networking opportunities, and often introduce more ambitious expectations and goals.

When your board is selecting new members, it should be sure to consider not only professional qualifications but personal “fit” as well. Every group has its own character, and boards are no exception. New members must have compatible personalities and know how to work on a team.

While bringing new members onto the board can be disruptive, careful orientation helps to integrate them into your NGO quickly. Taking the time to introduce new members to programs, policies, strategic issues, and performance expectations will pay off in terms of efficiency and good

name in favor of the solid professional ready to roll up his or her sleeves.

3. Target the business community.

Most NGOs have boards composed of people from similar NGO backgrounds. But the small businessmen and women in your community have valuable managerial skills that you can put to good use. Larger corporations that recognize the strategic importance of community involvement can also be persuaded to make time for senior staff to serve on your board.

4. Cultivate creatively. A deliberate strategy for attracting people to your NGO can pay off in successful recruitment. Creative cultivation can range from unusual events showcasing what you do to a short but intriguing newsletter circulated to a circle of potential board candidates. Some NGOs have even advertised successfully for new board members! By using new approaches you can tap into untested pools of talent that may be right for your board.

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feeling. A careful orientation program offers board members a chance to get to know each other and understand each other's strengths and backgrounds. The board coheres more easily as a group, and board members are more likely to enjoy their association with your NGO.

Orientation and other team-building activities can be the responsibility of the board development committee (see **A mandate for the board development committee**). Another job for this committee is a periodic board self-assessment. The self-assessment is a process by which the board looks in the mirror and measures its own performance. Self-assessments help a board sharpen its understanding of leadership and define the contribution it can make to your NGO.

Self-assessments are ideally performed yearly, based on annual goals the board has set for itself. They can be simple—a frank half-hour discussion by the board of its performance and aspirations—or complex—the topic for a longer weekend meeting with an outside facilitator. The implementation checklist at the end of this handbook offers a tool your board can use to assess its own performance.

Notes:

A mandate for the board development committee.

Many boards find having a board development committee (also called a governance committee) helps strengthen their governance capacity. Its main duties are to:

- Coordinate board-member rotation.
- Prepare an orientation program for new board members.
- Make sure the board defines annual goals.
- Conduct the board self-assessment.
- Ensure the board follows up on any resolutions emerging from its self-assessment.

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The committee can also oversee board-related policies, such as those involving reimbursement for expenses or the annual conflict-of-interest disclosure, by making sure they're regularly implemented, reviewed, and updated.

NGOs exercise responsible resource management and mobilization.

The board oversees the financial affairs of the organization.

After determining the mission of the organization, ensuring that the organization is financially sound and well managed is one of the most important duties of the board. An NGO's short-term health and long-term sustainability often depend on the attention the board gives to this critical task.

The board's basic job is to ensure that the organization has sufficient resources to fulfill its mission. If a budget doesn't exist, a first item of business will be for the board to ask the chief executive to prepare one. The board will then verify that expenditures are appropriate and reasonable, funds are spent according to approved procedures, investments are carefully managed, a complete and accurate record is kept of financial transactions, and adequate steps are taken to acquire and maintain diversified financial resources. The board may also set fees in membership organizations.

If this seems like a lot to expect of the board—it is! Even if the NGO has a supervisory committee, the board should exercise financial oversight on a regular—not just yearly—basis. The board will want to keep an eye not only on the good news, but on signs the organization is in trouble, too. Warning signals such as declining revenues or unexplained bookkeeping entries should be spotted and questioned.

Many boards find the job easier if they focus on following key financial indicators (see **Key financial indicators for the board to follow**).

Key financial indicators for the board to follow

At all times your board should be aware of the general financial condition of your NGO. So board members can perform this job, it often helps to give them less, rather than more, information. Rather than going over the entire accounts, many boards keep track of a set of key indicators at every meeting. These might include:

- Cash on hand (to make sure there is enough to pay salaries and expenses)
- Cash-flow projections (to make sure financial plans are realistic and adequate)
- Income and expenditures (to make sure the NGO is earning and spending at appropriate levels)
- Relation of actual to planned budgets (to make sure anticipated income and expenses are actually met or to understand the reasons for variations)
- Balance of reserves (to make sure they are not depleted below a fixed level).

7 1 NGOs exercise responsible resource management and mobilization.

7 1

A quick review of these indicators can be included on the agenda of every board meeting. So they can perform their job adequately, board members will need to receive financial reports in advance of—not at—the board meeting. **If financial data isn't complete or easy to understand, the board has the right—indeed, the obligation—to request it in a more usable form.** It goes without saying that all board members should know how to interpret the financial data provided by their chief executive. If necessary, they should be offered basic training to perform this task.

Often the board will want to form a finance committee to monitor the financial affairs in more detail (see **A mandate for the finance committee**).

→ **A mandate for the finance committee.**

The finance committee usually oversees the budgeting process. Ideally it is led by a finance professional. If you don't have such a person on your board, consider bringing in an experienced outsider as a member of the committee. The main duties of the committee are to:

- Ensure an annual budget is prepared and presented to the board for approval.
- Ensure reports for the current year are prepared and presented to the board for approval.
- Monitor income and expenses.
- Compare current financial conditions to financial projections.
- Arrange for an auditor.

Remember, while the committee needs to be involved enough in operations to monitor financial performance, it should take care not to micro-manage the staff.

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Notes:

7 2 The board establishes internal controls.

Internal financial controls guard an NGO's assets by regulating the handling of funds. Internal controls promote both integrity and efficiency. When they are in place as explicit board policy, internal controls reassure donors and constituents that the NGO's resources are used wisely and well.

It is the duty of the board to ensure that internal controls are both established and implemented. Among the most important internal controls the board can introduce are professional accounting standards, the separation of transactional responsibilities (for example, invoice approval and bank transfers), sound investment policies, and annual audits (see **The importance of audits**).

The board should review internal controls periodically to verify that they are being observed by employees throughout the organization.

→ **The importance of audits.**

In large organizations, an independent audit isn't just a good practice but is usually required by law. But many organizations in CEE fail to perform audits because of the expense involved. It's unusual for major accounting firms in the region to offer pro bono services to NGOs. So the expense of an external auditor can hardly seem worth it, especially when it takes up a large chunk of your budget.

But a clean audit speaks loudly to donors about an NGO's financial reliability. A good auditor will not just assess your financial statements but will also help make them more efficient. If you have trouble finding a commercial auditor you can afford, try checking with the national professional association of auditors to see if a qualified individual will perform the service for free. Or an auditor might agree to work for discounted rates if a group of NGOs approaches the firm together.

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Whether paid or volunteer, your auditors should never be compromised by other relationships to the organization. Above all, staff members should not perform or commission audits—this is a job for the board.

Once completed, it is the board's job also to confirm that recommendations of the auditor are implemented and the audited financial statements are published in the annual report.

Notes:

7 3 **The board takes part in resource development.**

Most board members are surprised to hear that resource development is a part of their job. However, this duty is a natural outcome of the board's duty to ensure that an NGO has sufficient resources. In CEE the involvement of the board in resource development is increasingly important. As international funders withdraw from the region, cultivating local sources of support is a top priority for most organizations, and board members can be among an NGO's most effective fundraisers.

This is true, first of all, because board members derive no personal benefit from any support received. They don't raise money for their own salaries, office space, or other purposes that may seem like forms of direct or indirect gain. Instead, **board members communicate a personal commitment to the mission that strengthens the case for support.** They can also broaden the organization's circle of contacts to include new potential sources of funding. Finally, their participation in resource development indicates that the board is active and involved, building confidence that the NGO is well-run, accountable, and less likely to misuse donated resources.

The board's involvement in resource development does not mean that board members have to approach donors and "make the ask"—a job that might make many members uncomfortable. Making introductions, signing letters, cultivating in-kind donations, and hosting social events are only a few of the ways board members can get involved in resource

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→ **Get your board started in resource development.**

Here are three ingredients you will need for successful fundraising with your board.

Ingredient #1: Motivation

To get board members started you will need to talk about what it means to have fundraising as a new role for the board. Explain why it is important for them to be involved. (If you

Boards also have a general oversight responsibility for human resources. Although the board delegates management of staff to the chief executive, it's up to the board to make sure that applicable labor laws are observed and employees are respected, adequately paid, and given opportunities for professional development. As part of its policies the board should establish a grievance procedure for handling complaints and resolving conflict in a fair, unbiased fashion.

Notes:

- Be specific about what you want them to do, and offer a choice of activities. You could brainstorm together about how they can help: they might open doors to a good contact, deliver a speech, write a letter, go with you to make an ask, advise on PR materials, or do many more small things as a first step.
- In several countries, where there is a so-called “1%” or “2%” law, the first thing they could do is designate a percentage of their income tax to the organization!
- Keep expectations realistic and the board informed about progress toward goals.

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Ingredient #3: Gratitude

Thank your board members and show them their help does make a difference! If they feel proud to be associated with your NGO, they will be keen to let others know about it, too.

NGOs are responsive to the communities they serve.

The board integrates organizational interests and community interests.

An effective nonprofit board represents the point where an NGO's organizational interests align with the interests of the surrounding community. In safeguarding resources and monitoring mission, in setting standards and evaluating results, a good board positions the NGO in the world as a known, reliable, and responsible partner that is helping meet the needs of the community as a whole (see **The chief executive's lament [part 3]**).

In a sense the board serves as the door between the inner world of the NGO and the outer community it both serves and depends on. This is a door that swings both ways. The board ensures that the NGO is responsive to the community around it and the community is known to and understood by the NGO. These functions are particularly important in the areas of mission and strategic direction. The board must constantly be asking tough questions that touch on the very reasons for the organization's existence: Is our mission important? Do we fulfill a real need? Do people understand what we are doing, and why?

Notes:

→ The chief executive's lament: "Why do I need a board"? (part 3)

This is the experience of a chief executive in Southeast Europe:

"I was the newly appointed director of one of the first foundations in our post-socialist, post-war country. At that time there was widespread mistrust of anything new and different. As the foundation awarded its first grants, I was wrongly accused by several people of favoring NGOs from my own ethnic group.

"Our foundation's board is diverse in terms of politics, ethnicity, and gender. The whole board, and especially those members from the same ethnic background as the people accusing me of mismanagement, were quick to speak up and explain that the process for awarding grants was fair, objective, and based on fixed selection criteria. If not for the board, our foundation could well have gone under at that time."

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→ Sample policy: communications.

A key policy to be set by the boards of growing NGOs is internal and external communications. The board should determine the key values underlying communications, such as honesty, credibility, loyalty, and transparency. It should also make sure that guidelines for applying these values are clearly explained. For example, what information needs to remain confidential, even when the organization

8 **NGOs are responsive to the communities they serve.**

8 **2 The board encourages transparent communications.**

An NGO's obligation to be accountable to the public takes many forms. To the government, it owes financial statements or periodic registration. To donors, it owes reports about the use of funds and assessments of program impact. To beneficiaries, it owes descriptions of services and the way they meet a community need.

This broad audience for an NGO demands an unusual degree of transparency. The privilege to solicit and dispose of public funds means that an NGO must show its inner workings honestly and accurately. It doesn't mean that the NGO must paint itself as the perfect organization—only that it can't hide the ways in which it is not.

The board makes sure that a basic communications policy is in place and all communications from the organization—publicity materials, grant proposals, fundraising letters, financial statements, reports to public authorities, web sites, descriptions of services—are well presented and truthful (see **Sample policy: communications**). To do this job well your board may want to recruit a new member with expertise in PR or a similar field. In the case of time-sensitive materials, especially of a legal nature, the board must take particular care that they are punctually filed and contain complete and accurate information.

Notes:

strives to be fully transparent? A policy on communications might also include:

Basic standards. What are the minimal elements of the communications program? They can include an annual report, board member participation in various forums, and permission from beneficiaries to use their photos.

General procedures and authorizations. What are the necessary general policies (e.g., all e-mails are to be answered within three working days) and authorizations (e.g., the chief executive must approve all contact with the media)?

Board communications. How does the board communicate with the staff? Should board members have a separate e-mail list? Can staff members contact the board directly if they have a problem with the chief executive?

Crisis communications. How does the NGO prepare itself for special situations? Usually the board takes a leading role, especially with the public. But more than one spokesperson can be counterproductive. Should it be the chief executive or the chair?

Fundraising communications. How can the vital contribution of the board be defined? Can board members provide quotes for a fundraising brochure or be the face of the NGO in the business community? If so, explicit policies will help make their participation more effective.

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8 NGOs are responsive to the communities they serve.

8 3 The board oversees the publication of an annual report.

The annual report is a vehicle for making financial and other information about the organization available to the general public. The annual report shows how much money came into the organization, who provided it, and what programs and administrative costs it was spent on. Usually annual reports contain audited financial statements or the most accurate available financial data. The annual report is also a convenient place for publicizing information about an NGO's activities and programs.

It's up to the board to see that an annual report is published on a regular basis and is made available to constituencies through wide distribution in hard copy or online (see **The results of research: annual reports**).

Notes:

→ The results of research: annual reports.

A 2002 survey of Hungarian NGOs* found that 81% of organizations prepare annual reports. This was good news, since public benefit organizations (accounting for 68% of the survey respondents) are legally required in Hungary to publish a report every year.

But the authors of the study noted that beyond fulfilling this legal requirement, many NGOs take a "minimalist approach" to transparency and accountability. In other words, only 32% of respondents actually put much effort into distributing their annual reports. Most of the reports seem to stay in the office unread.

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The lesson: boards should ensure annual reports are not only produced, but actually reach the public in printed or online form.

**Nonprofit Governance Practices in Hungary (see Resources).*

→ Starting off right: board member orientation.

Investing a half-day into orienting new board members is well worth it. Your new members will get to know the team while learning about

8 **NGOs are responsive to the communities they serve.**

8 4

The board serves as a link to the organization's constituencies.

Although a board's work is largely focused inside the organization, it performs a key purpose by always keeping one eye on the NGO's relation to its community. The board keeps the NGO alive to the needs and desires of stakeholders by asking what others think of the organization and listening hard to what they say. Board members often get more direct, unvarnished opinions than staff and therefore have access to a different, invaluable level of insight. In serving as a link with stakeholders, your board implements a process of consultation that is a hallmark of good governance.

Board members can also take news of the NGO to the wider public. They're able to serve as representatives of the NGO before a variety of audiences—business associates, community groups, and public officials, to name only a few—and their enthusiasm can work wonders. There are many methods for them to do this: writing letters to supporters, speaking to the media, opening doors for staff contacts, or making fundraising calls. Board members should strive to speak with one voice and offer a consistent message to various audiences.

The staff can help board members perform this role comfortably by providing talking points and logistical support. The importance of the board's ambassadorial role should also be emphasized during orientations for new board members (see **Starting off right: board member orientation**).

the issues facing your NGO. They'll also get a sense of your NGO's culture and values. Afterwards, they'll probably approach their board service with greater enthusiasm.

When preparing the orientation, put together an attractive packet of materials about your NGO. These might be assembled into a "board manual" containing the essential documents board members need—the basic documents, excerpts of relevant legislation (e.g., about board responsibilities and liabilities), minutes of previous board meetings, the chief executive's job description, the strategic plan, the current year's budget, and last year's audited accounts). A typical orientation program might look like this:

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- 9.00 Welcome (chair)
- 9.30 Overview of programs and finances (chief executive)
- 10.15 A closer look at long-term issues and goals (chief executive)
- 10.45 Break
- 11.00 The board's roles and responsibilities (chair)
- 11.30 Board policies and procedures (meeting schedules, attendance requirements, other performance expectations, conflict of interest) (chair)
- 12.15 Q & A (chair/chief executive)
- 13.00 Conclusion



Conclusion: Getting Started in Good Governance

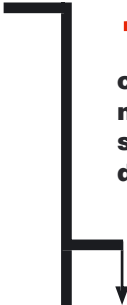
In a fundamental way, boards advance the capacity of individual organizations and the NGO sector as a whole to meet the needs of transforming societies.

As NGOs in CEE search for new and sustainable sources of local support, boards will play a vital role in reassuring supporters that the nonprofit sector is working towards larger community goals. Organizations that seek to build prosperous and fair democratic societies need to show that good governance begins at home with engaged and responsible boards.

But how to approach the challenge of good governance? How can NGO leaders with no experience with boards even begin to introduce unfamiliar ideas about governance to their organizations?

Whether you are a chief executive or board member, the task of good governance may seem daunting. But it is often easier to realize through many small steps than one giant leap. By following the eight steps below, you will increase your chances of success and make the undertaking a more manageable and enjoyable one.

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1 Start a conversation with your board about its role in the organization. Sometimes just initiating a discussion can open up new possibilities and allow the board to escape from stagnant routines. You can start this conversation by suggesting to your board that new approaches to its work will help strengthen the NGO and make the job of the chief executive easier. Try pointing out that larger trends in both the corporate and NGO sectors around the world are making the role of the board more important. Then ask your board members candidly where they think they could contribute in different or better ways to your NGO's development.

Conclusion: getting started in good governance.

2 Find out what motivates your board members to serve. It would be great to have a consensus from the start about the need to do things differently. But some people are always happy with the status quo and want things to stay as they are. Decreasing resistance to change may mean affirming but refocusing your board members' reasons for volunteering for board service. For example, one member may be on your board simply because she likes working with children. She might see a move from programmatic to governance duties as a threat to this satisfying contact. In such a case, you'll want to reassure the board member that even if the focus of her involvement changes, she'll still be able to connect with children in her new governing role. Once board members take part in active governance, they're usually sold on this type of engagement.

3 Take an incremental approach and prioritize your goals. Identify the most important areas for change on the board based on your NGO's larger needs. Is fundraising a top priority? Then start by suggesting small ways in which the board can get involved in resource development. Are donors looking for evidence of competent governance? Then clarify organizational relationships on paper and make sure they are realized in actual practice. The important thing is to start somewhere, then use small achievements as your platform for change.

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4 Reserve a large block of time for the board to consider a plan for its own development. It's better not to try to do this in a regular business meeting. The discussion will take on a different focus—more strategic, less structured—if a special time and setting are made available for creative thought. Schedule the meeting far enough in advance so all board members can come. And be sure to have them turn off their mobile phones! It might also help to invite an outside facilitator. The Implementation Checklist at the end of this handbook offers a good point for launching the board's conversation about governance and its own role.

5 Make sure the board and chief executive approach the process of change as a joint undertaking. Neither can push the process of change alone. Strengthening the performance of your board has to be a shared

★ Conclusion: getting started in good governance.

effort founded in mutual trust and support. Your chair and chief executive will want to talk about the process of change early and often, agreeing on appropriate strategies and common goals. If they are at odds with each other, chances are greater that the process will be a difficult one.

6 Get the right people on your board. Good governance may be rooted in institutionalized structures and procedures, but it comes alive as dynamic leadership only if the people on your board know how to use it as an occasion for personally satisfying work. Bringing on new board members who share your organization's values, are good team players, and are willing to take part in active governance may be one of the first steps your NGO needs to take. People without the time and energy to devote to the board will probably be a drag on your efforts to change.

7 Devote organizational resources to board development. Good governance shouldn't have to cost money, but it does need some small portion of your organization's resources if it's going to work well. The amount needed may be as little as enough to provide refreshments at an evening board meeting when members are hungry after a day at work. Later you will want to include the board as a separate line item in your annual budget. This money can be used for an overnight meeting or to hire a facilitator for a self-assessment. However much money you have to devote to your board, it will be a good investment. 31a

8 Accept the fact that it's going to take time. Structures, processes, and attitudes have to change from within. Too much change at once can be disruptive. People have to get used to new ways of thinking and feel comfortable with different approaches. Give yourself plenty of time to introduce new ideas to your board.

The Implementation Checklist that follows can help you start a conversation about governance by focusing your board on areas where its performance could be stronger. Ask your board members to answer the questions individually, and then compare their results; or answer them together, and seek agreement on what the board should be doing differently and why. Feel free to shorten the list if yours is a newer or smaller organization just starting to look

Conclusion: getting started in good governance.

look at its governance practices. If yours is a larger organization, you might want to introduce additional questions pinpointing particular areas of concern.

Once your board has performed this self-assessment, it will probably want to introduce new practices step by step. The order and speed in which the guidelines set forth in this handbook are implemented depend on many factors, including your organization's unique needs and stage of development.

For example, the guideline “The board is distinct from the staff” (under the principle “Good governance involves the separation of governance and management”) should be a first goal for any organization. However, implementation of the subsequent guideline “The board plans for chief executive succession” may need to wait until the board is no longer dominated by the staff.

Your organization should consider bringing in an outside facilitator to help you structure a process of change, identify areas for attention, and design an action plan for introducing new practices. A good facilitator can mediate differences of opinion within your organization and clarify or adapt the guidelines contained in this handbook.

Above all, it's important to remember that each organization must forge its own path to good governance. By questioning, discussing, interpreting, and creatively adapting the guidelines contained in the handbook, your NGO can truly reach for good governance and make a meaningful commitment to the nonprofit sector in CEE as a whole. It will be a challenging but exciting voyage.

We wish you the greatest success!



Implementation Checklist

Is your organization committed to good governance? Use the following checklist to rate your board's performance, writing any comments you may have in the space after each statement. Board members should compare their answers and together identify areas of strength and weakness. An action plan for improving the board's performance can follow.

Yes Partly No

1. ☐ ☐ ☐ Our organization has a formally established governing structure.
2. ☐ ☐ ☐ Our board makes decisions collectively.
3. ☐ ☐ ☐ Our board has a designated leader or chair.
4. ☐ ☐ ☐ Our chief executive has a written job description outlining performance expectations and goals.
5. ☐ ☐ ☐ Our board evaluates the chief executive annually.
6. ☐ ☐ ☐ Members of the staff, including the chief executive, are not voting members of our board.
7. ☐ ☐ ☐ The chief executive is not the board chair.
8. ☐ ☐ ☐ Our organization has a mission statement, which is known throughout the organization.

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Implementation Checklist

- 9. ☐ ☐ ☐ Our board focuses on strategic leadership and “big picture” thinking.
- 10. ☐ ☐ ☐ Our board does not micro-manage or engage unnecessarily in operational details.
- 11. ☐ ☐ ☐ Our board makes sure that adequate planning takes place throughout the organization.
- 12. ☐ ☐ ☐ Our board makes sure that regular evaluations of programs and operations are performed and acted upon.
- 13. ☐ ☐ ☐ Our board understands the organization’s finances and monitors the financial condition regularly.
- 14. ☐ ☐ ☐ Our board ensures that internal financial controls are in place and working.
- 15. ☐ ☐ ☐ Our board ensures that the organization’s accounts are regularly audited.
- 16. ☐ ☐ ☐ Our board takes part in resource development.
- 17. ☐ ☐ ☐ Our board ensures an annual report is produced and distributed.

Implementation Checklist

Yes Partly No

18. ☐ ☐ ☐ Our board members are not paid for their service and derive no other direct or indirect gain from their board service.
19. ☐ ☐ ☐ Our board has established and enforces a conflict-of-interest policy.
20. ☐ ☐ ☐ Our board sets a high professional and ethical standard.
21. ☐ ☐ ☐ Our board has a clear set of rules for its own operation.
22. ☐ ☐ ☐ Our board meets regularly, with dates set in advance.
23. ☐ ☐ ☐ All board members arrive at meetings punctually and prepared to take part in proceedings.
24. ☐ ☐ ☐ Board meetings focus on policy, oversight, and strategic direction.
25. ☐ ☐ ☐ Board meetings involve active discussion and decision-making rather than rubber-stamping and listening to staff reports.
26. ☐ ☐ ☐ Our chair knows how to lead discussions, maintain discipline, and include all board members in accomplishing necessary work.

Implementation Checklist

- 27. ☐ ☐ ☐ Board meetings keep to the preset agenda.
- 28. ☐ ☐ ☐ Our board keeps minutes of all of its meetings.
- 29. ☐ ☐ ☐ All board members have written guidelines outlining expectations of their board service.
- 30. ☐ ☐ ☐ Our board works well as a team.
- 31. ☐ ☐ ☐ Our board sets annual goals for itself.
- 32. ☐ ☐ ☐ Our board assesses its own performance regularly.
- 33. ☐ ☐ ☐ Individual board members serve set terms within a system of regular rotation.
- 34. ☐ ☐ ☐ Our board recruits new members strategically.
- 35. ☐ ☐ ☐ New board members are thoroughly orientated into the organization and board service.
- 36. ☐ ☐ ☐ Our board members serve enthusiastically as ambassadors for the organization.

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