

MANAGEMENT OR GOVERNANCE? What is the difference?



Another Community Resource for the Not for Profit Sector



ACKNOWLEDGEMENT

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GOVERNANCE AND MANAGEMENT

WHAT IS THE DIFFERENCE?

INTRODUCTION

Governance is taking responsibility for the overall direction of the organisation, including the development of policies that will achieve its goals. Governance is concerned with the purpose, the 'big picture' and the 'ends'. People in the governing role are the trustees or stewards of the organisation's kaupapa and well-being.

Management is responsible for implementing the policies set down by the governing body and coordinating the day-to-day activities, which achieve the organisation's goals. Management is concerned with methods, the everyday detail, and the 'means'. The person in the key management role (CEO/coordinator/manager) is employed by the Governing body and answerable to it.

The committee/board's primary role is the guardian of the organisation. It is concerned about the purpose of the organisation; it has a role of Governance.

Management is concerned about the way this is carried out – the how's, when's and where's. This is management.

CHANGES IN POWER BASE

The Board/Committee must make a conscious decision whether it wishes to take on the role of Governance only or Governance and Management. This decision must be reflected in the job descriptions of management and clearly document the role of both. It is important that all board/committee members understand the difference between Governance and Management in order to achieve success, because if the Board/Committee chooses to be involved in governance only, they will be handing over part of the 'control' of the organisation to delegated staff.

The decision means that the Board/Committee now have to be more informed about programmes and strategic directions and less involved in day to day administration. The issues of Board/Committee leadership and agency leadership are therefore critical. Many board/committee members who have been used to having input into the day-to-day decisions of the organisation often find this transition difficult and feel isolated. It is not uncommon to lose some board/committee members when the decision is made to move into a management/governance role.

This decision is often made by boards/committees after an organisation has become established and tends to be a product of growth. The Board/Committee often find themselves in a position of not having the time to manage the organisation on a daily basis and would prefer to channel their energy into strategic visions, contacts or specific areas of expertise. By adopting a governance model they can do this rather than focus on the day-to-day activities that are required for the agency to run well.

For this transition to be successful the Board/Committee should have:

- a clear understanding of what is required under their founding document e.g. the constitution or trust deed
- have clear policies in place to deal with such things as complaints, employment etc.
- an up to date strategic or management plan and vision for the organisation
- clear job descriptions.

Let us now look at the common stages in development of an agency

THE STAGES OF DEVELOPMENT

Stage 1

A small group of enthusiasts gather together for a 'cause' – perhaps an obvious social problem that they wish to remedy. Views and ideas are exchanged as to what is needed and how they should go about meeting the needs. Mutual support is given to each other. The group is looking out at the community, seeing the gaps or the problems and concentrating on providing solutions for the community.

Often the characteristics are self-interest and external focus. At this stage both services and management are in the hands of the same people – in other words they **are** the organisation.

Stage 2

The group begins to feel a sense of 'victory' – it is achieving. The people involved now begin to look inwards at their operation and how they should best organise it. They start thinking about policies, ethics and the quality of service rather than the quantity of service.

The organisation starts to develop relationships with the community and other agencies and begins to feel a 'sense of its place'. More time and effort goes into developing a secure financial and service base – there is a growing 'professionalism' about the agency. There is a division of functions – staff now undertaking the 'hands on' work and the board/committee retreating to management.

Often the characteristics change to group interest and internal focus. At this stage the organisation is growing and workloads are getting too heavy to be sustained solely by the original small group. The provision of services now moves into the hands of paid staff, leaving management to the original group or committee. With the employment of staff administrative functions grow.

Stage 3

The organisation emerges from its internal focus and begins to have a more realistic appreciation of the problems, the services needed and how to achieve its purpose. New realisations and needs will begin to emerge and re-assessments and possible changes will take place. The need for flexibility will become important. The organisation progresses from survival to achievement. Some internal conflicts and power struggles may emerge as the 'old hands' feel resistance to new ideas or changes of focus. Often the characteristics change to social interest and external focus.

Finally with the growth in service provision and the consequent growth in paid staff the demand to upgrade service quality, plus the need to handle day to day management, communications, administration, programme organisation and monitoring, the strain on the original group or committee becomes intolerable.

As a solution the group decides to appoint a manager!

(Stages adapted from a paper written by Yvonne Dufaur, Consultant)

Having made the difficult decision to appoint a manager the board/committee is faced with the decision of defining their role as well as the role of the manager. Do they want to appoint purely an administrator or do they wish to appoint a person to whom they will hand over the control of the management of the organisation? This is where the clear distinction between governance and management must be made.

YOUR ORGANISATIONAL PLAN

It is important that the Board/Committee and staff are rowing the boat in the same direction. This can only be done if both parties have a very clear idea of what services the organisation wishes to provide, how the mission statement will be carried out, the timeframe in which services and projects are to be delivered and who will deliver them.

There is simply no point in a Board/Committee investing the responsibility of managing the organisation if the above documents are not in place, as conflict will quickly arise as the person given the responsibility to manage and the board/committee will possibly have a different interpretation of the way things should be done. This will almost certainly lead to conflict within the organisation.

Relationship Between Chairperson And Manager

The relationship between the Chairperson and the manager is a crucial one if the division between governance and management is to be successful for your organisation. The board/committee must have a relationship of trust with the manager so that they can be confident that Board/Committee decisions will be implemented and services delivered as agreed. If this relationship breaks down, for whatever reason, the process will be undermined and it is time for the organisation to rethink their strategies.

A major factor in the success of the management/governance division is clarity of the role of both the management and the Board/Committee.

SITUATIONS TO AVOID!

A Harvard Business Review 1995 edition had this description of a board/committee meeting:

“Attending a board/committee meeting is rather like entering the on-ramp of an expressway at rush hour; you spend half the time coming up to speed and the other half trying to insert yourself in bumper to bumper traffic, only to find it is time to exit and try again a month later.”

BREAKDOWN OF ROLES AND RESPONSIBILITIES

To help make your decision easier the following is a suggested breakdown of roles and responsibilities together with the possible advantages and disadvantages of both:

GOVERNANCE	MANAGEMENT
Legal responsibilities	Communication with the Board
Policy decisions and monitoring	Policy decisions, monitoring and implementation
Financial planning and monitoring	Financial policy, monitoring and implementation
Strategic planning and monitoring	Strategic planning, monitoring and implementation
Appointing and monitoring CEO/Manager	Management decisions and implementation
Delegation of management/administration	Administrative decisions and implementation
Funding responsibility and sometimes implementation	Funding responsibility and implementation
Keep its focus on the strategic implications of programmes and services rather than on their management	
Accept the principle that the board speaks with one voice, that no one member shall publicly express his/her own opinion should this deviate from an agreed board position or decision	
The role is that of:	The role is that of:
Broad decision makers	Broad decision makers
Broad operational oversight	Broad operational oversight
Performance monitoring	Performance monitoring
Ensuring financial viability and oversight	Ensuring financial viability and oversight
	Detailed decision making and implementation
	Fundraising
	Carrying out day to day functions

GOVERNANCE	MANAGEMENT
Advantages:	Advantages:
Ability and time to stand back and look at broader issues	Intimate knowledge of every facet of the organisation
Time to study trends/research relating to agency activities	Day to day management of issues
Less meetings	
More time for implementing funding responsibilities (where applicable)	
Disadvantages are:	Disadvantages are:
Tendency to lose touch with realities of some functions or services	Lack of time to consider wider issues and trends
Danger of becoming distant from staff and clients of the service	Danger of immersion in detail and paperwork
	Heavy workloads
	More sub-committees with consequent decision making delays and time usage
	More meetings
	Tendency to postpone decisions on broader or important issues

THE IMPORTANCE OF DOCUMENTATION

Let us look at key documents individually and see where they fit into the debate about governance and management.

Constitutions Or Trust Deeds

This document should set out such things as:

- The aims and objectives of your organisation
- Terms of membership
- Meeting requirements and Annual General Meeting requirements
- Number of Board/Committee members and possibly who they should represent
- The management of assets of the organisation
- Decision making processes
- The winding up of your organisation

Board/Committee members and staff should be very familiar with this document as it is key to the organisation, it is the basis on which the organisation was founded and if it is now outdated it should be revisited and revised.

Any decisions taken by the Board/Committee or the Staff should take into account the provisions in this founding document, as it is a legally binding document.

POLICIES

Policies can be very simple but they provide a guideline dictating standards expected for the organisation. Policies are formed as a “commandment” for decision-making. They should be subject to much consultation and discussion before implementation. Policies act as a safety net for an organisation and should be a priority.

Policies you may consider:

- **Complaints Procedure** - What avenues are available for staff, volunteers or clients to express concerns or lodge complaints?
- **Safety Policy** - (for staff visiting or being visited by clients)
- **Employment Policy** - acknowledge that the Treaty of Waitangi is New Zealand’s founding document, that the agency is an equal opportunity organisation.
- **Financial Management Policies** - Such as cheque signing/reporting
- **Dismissal Policy** - termination of employment
- **Conflict of Interest Policy** for Board/Committee members and staff
- **Sexual and Racial Harassment Policies**

Your particular organisation may wish to introduce other specific policies.

What Are Policies?

- A governing tool
- A framework

They provide guidelines, and a framework for all sectors of the organisation whether it is volunteers or board/committee members.

Policies should be formed after consultation at all levels, discussion debate and shared experiences. They should be a fundamental tool of the organisation and be held in a “Policy Manual” which is readily available to all sectors of the organisation.

Policies should not be implemented to react to a current challenge. They should be implemented proactively so that when a challenge arises, they can be referred to for guidance.

The governing body, whether using a governance or management model should formulate policy. The body is responsible for the stewardship of the organisation and is responsible for policy formation whereas the staff is responsible for the implementation of the policy.

Policies do not have to be lengthy wordy documents; sometimes a one paragraph statement is sufficient.

Terry Kilmister outlines an example of a Meeting Policy in "*Boards at Work*".

Simple Meeting Process Policy

"The board/committee has as a goal the achievement of effective and efficient meetings. To this end meetings will:

1. Be based on a pre-prepared agenda, the preparation of which is the responsibility of the board Chairperson. Such an agenda should reflect the board's governing role which at all times focuses the board's attention on the governing process, addressing board/committee 'ends' rather than involving in 'means'.
2. Include the CEO as the representative and advocate of the paid staff and volunteers unless staff have been invited to the meeting by the board/committee to present an issue or provide information or advice.
3. Be open to the public except when the board/committee declares a section of the meeting to be 'in committee'.
4. Have the right to go 'in committee' at any time it chooses but in doing so will
 - make the reasons for this clear
 - reserve the right to include or exclude any non-board/committee member if so chooses
 - make all efforts to look ahead and signal any such 'in committee' session in the agenda or at the beginning of the meeting.
5. Be held with the expectation that members have prepared for them and will participate in all discussions at all times within the boundaries of behaviour considered acceptable by the board/committee."

Healthy organisations have healthy open processes and policies, which reflect the culture of the organisation, expectations and processes, eliminate confusion, assist progress and provide accountability.

Why have Policies?

A voluntary organisation consists of two teams - the policy team led by the Chairperson and the management team led by the senior staff member. Effective co-operation and well-defined working relationships between these two teams are essential.

Decisions need to be made, procrastination and lack of decision-making is one of the worst scourges of community organisations. By agreeing on policies it removes much of that procrastination and dithering and provides the necessary framework within which decisions can be made.

What Information is needed for Policy formation?

Straddling this divide between the internal and external worlds of an organisation is important and has the following characteristics:

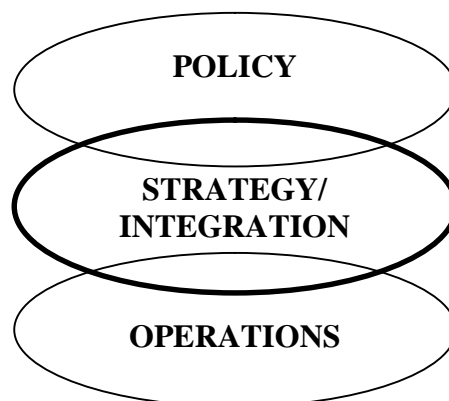
1. A three-level hierarchy of policy/strategy/operations
2. A double loop of learning which allows multiple feedback from information flows, direction-giving, and the monitoring of changes in the external and internal environments
3. A means of processing and integrating these information flows by positioning the direction-givers at the centre of the organisation's learning



—————> = downward flow of directions

—————> = upward flow of information

Information flows in a learning organisation



How Do We Start Policy Formation?

Starting is always the hardest part! Many groups find it easiest for the Board/Committee to **draft** a policy and then circulate it throughout the organisation (including volunteers) for comment. A meeting or meetings with staff and volunteers are then held to listen to different comments and suggestions after which the Board/Committee finalises the policy. This process may take many months - the more contentious the issue the harder it will be to form policy.

Policies should not be treated lightly and once adopted should not be disregarded therefore it is worth investing time, energy and commitment to the process in order to have a successful outcome. The most successful outcome will be achieved if there has been true consultation and group decision-making.

Remember policies often outlive management committees and employees so they need to be clear, accessible and relevant.

All these documents provide a sound framework within which you can confidently work. It takes time to prepare all these documents but once prepared you have a referral point, which provides a blueprint for your decision-making and eliminates ad hoc disastrous decisions being taken.

Employment Agreement with CEO/Manager

Once the decision to devolve the responsibility for management has been made it is important that this is reflected in the employment contract of the Manager.

How far the Board/Committee wish to devolve responsibility is for them to decide but whatever those decisions are they must be clearly communicated in the employment agreement with the manager.

This contract should nominate the Board/Committee member who the manager is responsible to (usually the Chairperson). The document should clearly state what the Board/Committee has agreed to devolve such as:

- The day to day management of the organisation and staff
- Hiring and firing of staff
- Preparing budgets for the board's approval
- Attending and reporting to the board
- Attending to the day to day running of the organisation
- Liaison with the media
- Confidentiality etc etc

Once the decision to devolve this responsibility has been made the Board/Manager responsibility becomes very different.

The relationship should be one of equals/colleagues – each respecting the other as important links in the success of the organisation.

Role Of The Manager/CEO

The manager should:

- Respect board/committee members and work with the Chair to ensure board/committee members utilise their skills and contribute to the ongoing success of the organisation.
- Be a good communicator with Board/Committee members through listening, honest reporting and contributing research and relevant information to assist with decision-making.
- Be clear about what information needs to be to the board/committee members and when and facilitates this process on time. It is important that all board/committee members are treated in the same way so that divisiveness is not created.
- Assist the Board/Committee members to meet commitments and deadlines as per the organisational plan.
- Alert the Board/Committee to any legal, financial or accountability responsibilities the organisation may have.
- Keep the Board/Committee informed of any complaints made by clients or staff and how these have been resolved.

Role Of The Board

The board should:

- Act as a two-way channel between the organisation and the outside world, interpreting events in the community in terms of organisational direction.
- Ensure the organisation maintains an emphasis on outcomes or results rather than its own processes. Results must be shown for the staff's efforts and operational progress is measured against these results.
- The board/committee should establish a good relationship with the staff and particularly with the manager. The Board/Committee should only ever work through the manager if requesting anything from the staff.
- The board/committee should stay clear of organisational trivia. It must find a balance between too much involvement and too little – staying in contact and informed, while not interfering.
- The board/committee should attend to all funding requirements
- The board/committee decisions whether unanimous or not, are accepted and supported by members. There must be unity to gain credibility.
- Be aware of the legal responsibilities they have in terms of their constitution or trust deed and be very familiar with the organisational plan, policies and other documents relating to the structure of the organisation.

- Know how to read a financial statement and balance sheet of the organisation and with that knowledge approve the annual budget provided by the manager. Once that budget has been approved it is the role of the board to ensure that the manager works within that budget. It is not uncommon for a board member to also be the treasurer of the organisation and that person may have the financial reporting responsibility.
- Be clear about its role and why each person around the table is there and what they are able to contribute to the direction of the organisation.
- Create an environment in which members and the manager feel safe and able to maximise their contribution. The Manager should be involved in the whole of the board meetings, with the exception of say salary or performance discussions, as it is often the discussion leading up to a decision that can give a manager extra understanding of what is expected of him/her when implementing that decision.
- Carry out performance appraisals on a regular basis.
- Act as spokesperson for the group, a role also usually carried out by the Manager as well. However if an issue creates public interest it is often more appropriate for a board/committee member to speak on behalf of the organisation rather than the manager.

STARTING THE PROCESS

Once the decision to clearly separate the governance and management roles and the documentation is all in place there are some other simple things that can help the process.

One of these is the way reports are written for the board/committee. It is often a good idea for the manager to divide the report to the board/committee into two sections - one headed governance issues and one headed management issues. The governance issues would include all the project, financial, legal and strategic decisions. The management issues section would include staff changes, capital expenditure (provided for within the annual budget approved by the Board/Committee) and other items that keep the board/committee informed.

The Board/Committee should not have input into the management issues section of the report but rather support or comment on the manager's decision or action. The real energy of the meeting should focus on the governance issues section of the report.

By separating out the management issues it allows the Board/Committee to concentrate on growing the organisation by using their specific skills and experience. It is important to channel the positive energy previously contributed to the day to day issues into future directions of the organisation for board members to continue to feel valued.

Delegation Of Organisational Responsibilities

(Adapted from “Boards at Work” by Terry Kilmister)

BOARD	MANAGER	SENIOR STAFF	OPERATIONAL STAFF/volunteers
Works from terms of reference	Works from job descriptions	Work from job descriptions	Work from job descriptions
Establishes board-level policies	Establishes staff-level policies	Carry out staff-level policies	Carry out the organisation’s plans and policies under the supervision of senior manager
Establishes high-level strategic planning statements	Establishes strategic planning goals, strategies and time frames	Implement strategic planning strategies with staff	
Monitors the work of the CEO	Monitors the work of the senior staff	Monitor the work of all other staff	

Some Things That Go Wrong On Boards

- Members are often unaware of their role
- Time spent on the trivial
- Short term bias – absence of strategic long term focus
- Reacting to staff initiatives, instead of coming up with proactive ideas
- Reviewing and rehashing staff work disproportionately instead of taking leadership
- Becoming solely a forum for staff feedback
- Board continues to relate directly with other staff, despite appointing a CEO/Manager – lines of accountability and authority become murky
- Board members try to do Manager’s job for them; and/or take inappropriate authority
- Board becomes subservient to Manager and/or other staff
- Board comes to represent only a small part of the constituency, or one stakeholder

CONCLUSION

The business sector is currently exploring the issues of Governance/Management and in article in Management magazine (February 2001) states “Governance requires a ‘divergent’ style of thinking – hence the need for open-mindedness to explore different dimensions of ideas and information. Norman Geary, a director on 14 boards, states “there is a need for greater involvement in smaller companies, by comparison bigger organisations have a greater depth of expertise and resource.

FURTHER READING

The Learning Organisation - Bob Garvatt

“Boards at Work” - Terry Kilmister

Setting up a Legal Structure - NSCSS PO Box 33 284, Takapuna.

Sexual and Racial Harassment Policy Resource Book - NSCSS PO Box 33 284, Takapuna.

Guide for Committees – NSCSS PO Box 33284, Takapuna

Non-Profit Boards and Leadership, Mirriam M Wood (ed), Jossey-Bass, San Francisco

Boards that make a difference, John Carvery, Jossey-Bass, San Francisco.

Board Café, a web discussion group co-published by Compass Point Non-profit Services and the National Centre for Non-profit Boards (www.boardcafe.org)