

Fostering Effective NGO Governance

Q. What Is Good Governance?

A. Fostering effective non-governmental organization (NGO) governance is a hot topic among international development professionals these days, but what does this actually mean? Dictionary definitions of governance tend to be vague, equating it with government or the exercise of authority.¹ “Good governance,” in turn, generally refers to the sharing of decision-making authority, so that power and resources are not concentrated in the hands of a single individual or group.² In NGOs, good governance is exercised through an internal system of checks and balances that divides power and authority between management and a governing body to ensure the public interest is served.³

An NGO’s governing body—referred to in this paper as the Board of Directors or Board—is tasked with identifying and safeguarding the organization’s mission and strategy. It also plays a role in overseeing finances, hiring and evaluating the executive and participating in fundraising and representational activities. The management and staff of the organization, on the other hand, are charged with implementing the Board’s vision through the day-to-day work of the organization. For there to be a distinct division of power, the same people should not be involved in both the governance and management functions of the organization. In other words, staff members should not serve on the Board.⁴ In this way, NGOs can better demonstrate accountability and transparency to donors, members, constituents and beneficiaries.

Governance is the process of providing overall vision, direction, purpose and oversight to an organization through a structure—such as a Board of Directors—separate from the day-to-day management of the organization.

Management refers to the day-to-day implementation of the Board’s vision via policies, procedures and activities to accomplish the goals of the organization.

This *Tips* paper looks at why donors should care about good NGO governance and how they can help support it as an essential element for boosting NGO effectiveness.

Why Should Donors Care About the Governance Practices of Their Partners and Grantees?

Like investors in the financial arena, donors want their investments (grants) to generate the highest possible rate of return. Good governance practices contribute to an organization’s efficiency, effectiveness and focus, and are therefore relevant to NGOs and their donors alike.

A well-functioning Board:

- *Steers the organization*, by identifying and safeguarding a mission, articulating a strategy to achieve organizational goals and evaluating progress in meeting those goals;

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[Good governance is] 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.

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The Working Group on NGO Governance in Central and Eastern Europe
A Handbook of
NGO Governance
http://www.icnl.org/knowledge/pubs/Governance_Handbook.pdf

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- *Oversees the financial affairs of the organization*, ensuring that the organization develops and follows a budget, keeps adequate financial records, carefully manages any investments and takes steps to diversify funding sources;
- *Supports the NGO's long-term viability* by helping to raise funds for the organization, either through personal donations or support from other sources;
- *Promotes organizational continuity and stability*, serving as the institution's memory if the executive director or other key staff move on, thereby increasing the chances that programs and organizational learning continue and preserving a donor's investments; and
- *Serves as a link to the organization's constituencies*, representing the organization before a variety of audiences, including public officials, donors and the general community, and bringing feedback from these constituents back to the management and staff.

General Guidelines for Supporting the Development of Good Governance

Donors should take great care and forethought before investing in the governance practices of their local partners, keeping the following guidelines and pointers in mind:

1. Get on the same page

Sometimes simply getting local NGOs to understand the term “governance” may be complicated. In “A Handbook of NGO Governance,” Marilyn Wyatt and the Central and Eastern European Working Group on Nonprofit Governance note that the mere concept of good governance as a separation of powers is relatively new in the post-communist world. Furthermore, finding a word in a local language to convey the full meaning of governance may be challenging, because local words for

‘governance’ may also be used to translate the English word ‘management,’ further confusing the difference between the two concepts.⁵

Various uses of the word “Board” may result in further confusion. For example, in Croatia, many NGOs have what they call “management Boards.” While called Boards, they consist of key staff who manage the day-to-day operations of the organization, putting both their composition and function in diametric opposition to a true governing body. Such entities can still exist in a well-governed organization, but it is important that donors and local partners use the same terminology to talk about the same thing.

2. Understand Local Legal Requirements

Donors that want to promote good governance in their partners should clearly understand the local legal environment before getting started. In the United States, nonprofit organizations are legally required to have a Board of Directors to oversee their affairs, but this is not necessarily the case elsewhere. Instead, local laws may name another body as the ultimate legal authority, remain entirely silent on the matter or require a Board, but in a way that allows it to simply exist on paper. For example, the general membership (sometimes referred to as the Assembly) is the highest governing body for membership associations in many countries. However, the Assembly often includes staff and may only meet once a year, which is insufficient to adequately guide the organization, and therefore does not meet the standards of good governance as defined above.

Despite the challenges, promoting the development of true governing bodies is possible in such circumstances. Yet, it is also important to note that an approach which encourages local organizations to dismantle legally-required bodies or develop structures that fly in the face of local legal requirements would only set back the cause for better governance.

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3. Ensure Ownership of the Process

As with any organizational capacity-building effort, the recipient needs to wholeheartedly embrace the process for investments in governance to pay off. An inherent power imbalance exists between donors and grantees; grantees that agree to pursue governance improvements out of a fear of losing a valuable donor are unlikely to reap any benefits, leaving both parties dissatisfied.

4. Agree to a Realistic Time Frame

Donors and local partners must also recognize that improving governance practices is a long-term process—one in which results are not going to be immediately visible. Both parties should be prepared to make a long-term commitment to realize any serious changes.

5. Assess Governance Practices

Any organizational capacity-building effort, including those related to governance, should begin with an assessment to ensure that interventions address priority needs. In some cases, local NGOs may not have Boards at all, particularly in countries where the legal framework does not require them. In other cases, Boards may exist, but not be as effective as they can or should be. An assessment should aim to identify the unique governance challenges faced by a specific organization by answering the following types of questions:

- Does a Board exist?
- Does the organization have a clear mission and strategy?
- Do Board members understand the organization's mission and strategy and feel committed to them?
- Are there problems with Board composition? Are there staff members on the Board?
- Do Board members understand the role(s) they should fulfill? Do they have the skills they need to fulfill those roles?

- How engaged and committed are Board members?
- How often does the Board meet?
- How are Board meetings structured and facilitated?
- How do the Board, management and staff interact?

The assessment process should fully engage both the Board and management of the organization.

6. Adapt and Adopt Appropriate Models

International donors should recognize that governance models and practices in the United States and other western countries may not be appropriate in the contexts in which they are working and may need to be adjusted to make them applicable and practical in the local context. For example, while Board members in the U.S. are often expected to raise a certain amount of funding from their personal resources or contacts, the culture of individual philanthropy may not exist in developing countries, making such expectations unrealistic. Instead, the fundraising role of Boards may need to be focused on identifying grant opportunities or meeting with potential grantors.

7. Recognize Partner Capacity

It is also important to adjust interventions and expectations to the needs and capacities of local partners. While it is important for both large and small organizations to follow good governance principles, the ability and motivation to implement certain practices is likely to differ depending on available resources, both financial and human. For example, while a large organization may benefit from a larger Board with a developed committee structure, this may not be feasible or desirable for a smaller organization.

8. Be Aware of Cultural Barriers

Many nonprofits are founded by charismatic individuals who make virtually all organizational decisions. While such or-

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organizations may be very well-run, they would still benefit from the development of a Board for the reasons described above. However, donors working with such organizations may have a hard time promoting the separation of powers dictated by good governance principles, confronting leaders who are reluctant to share responsibility for the organizations they created. Along similar lines, in countries with a preference for firm leadership, donors may find that NGOs are reluctant to develop systems that promote a separation of authority. Donors should take these cultural factors into account when deciding whether to invest in the governance arena.

How Can Donor Organizations Promote Good Governance in Their Partners and Grantees?

Following the above guidelines, there are several ways donor organizations can promote good governance in their local partners. In some cases, donors may wish to engage in direct actions that encourage their local partners to develop better governance practices. Direct interventions are limited by a donor's understanding of and expertise in governance matters and are, therefore, likely to be limited in scope and scale for most donors. At the other end of the spectrum, donors can fund or organize activities that draw on the expertise of outside facilitators or trainers, although such interventions may be both more ambitious and more expensive.

- *Individual conversations:* At the most basic level, donors can engage individual grantees in direct conversations about their governance practices. Ideally, such conversations would engage both Board members and management. Such conversations can be used to explore current governance practices, identify areas for improvement and make recommendations.
- *Group discussions:* In addition to talking with grantees one on one, donors may wish to create opportunities for partners to jointly discuss and explore governance issues, such as joint meetings or peer exchanges and site visits. The composition of such activities should be designed to encourage learning. For example, joint meetings might include organizations at similar levels of development or with similar governance structures or problems, while exchanges might be used to provide organizations at more basic levels of development with the opportunity to learn about the practices of more advanced organizations.
- *Board member identification:* In some cases, donors may be able to draw on their own contacts to provide assistance in identifying potential Board members that would benefit a particular organization. Donors may even wish to facilitate introductions, but should steer clear of actively recruiting Board members for their local partners, as the Board members should ultimately be loyal to the organization and not the donor.
- *Milestones for performance:* If their policies allow it, donors may consider using their grants to encourage better governance practices in their grantees by including milestones for performance that link financial support to progress in developing good governance practices. For example, payments could be tied to the Board recruiting new members or instituting a committee system.
- *Training and consulting:* If donors have more resources available, they may wish to support various types of training and assistance for organizations and their Boards. Local organizations may feel more comfortable

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ble discussing their governance shortcomings with a neutral third party than with their donors.

Training and consulting topics can range from the role and benefits of an independent Board to the specifics of Board work, identifying and recruiting Board members, structuring Boards and committees and organizing effective Board meetings. The format of such interventions can range from formal workshops on governance topics aimed at one or more organizations, to Board retreats or strategic planning sessions where a skilled facilitator works intensively with an individual Board on the specific issues it is confronting.

- *Sector-wide governance:* Finally, in cases where donors may be interested in promoting better governance in the NGO sector at large, they may consider supporting broader discussions on the topic, as the CroNGO Program (supported by USAID and implemented by AED) did in Croatia. CroNGO formed a Good Governance Working Group (GGWG) consisting of 16 NGO leaders and trainers to identify weaknesses in NGO governance and ways to institutionalize better governance practices throughout the sector. In addition to bringing their own organizational structures in line with good governance principles, GGWG members adjusted the governance principles developed in *A Handbook of NGO Governance* to suit Croatian NGOs and organized a series of roundtables throughout the country to promote these ideals.

Resources

A Handbook of NGO Governance, Marilyn Wyatt, 2004. -
http://www.icnl.org/knowledge/pubs/Governance_Handbook.pdf

“Advancing Good Governance: How Grantmakers Invest in the Governance of Non-profit Organizations,” Kathy Hedge, Eva Nico, and Lindsay Fox
http://www.boardsource.org/dl.asp?document_id=663

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International Center for Not-for-Profit Law, “Integrity, Good Governance, and Transparency. Rules for Self Regulation.”
www.icnl.org/gendocs/selfreq.htm

References

- ¹ <http://www.dictionary.com>
- ² A Handbook of NGO Governance, Marilyn Wyatt, p. 6A
- ³ Ibid, p. 6A
- ⁴ Ibid, pp. 11B-12B
- ⁵ Wyatt, p. 6B

NGOTips

For more information:

This NGO Tips brief is available online at www.NGOConnect.NET. This dynamic and interactive site is dedicated to connecting and strengthening non-governmental organizations (NGOs), networks, and support organizations worldwide.

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