

Board Governance Basics

(Source: Three Sigma, Inc.)

Why do Boards exist?

1. They are required by law

- Boards are legal guardians of the corporate person.
- Responsible to owners of the corporation (community for non-profits)
- Board's authority is collective. Individual members have no authority.
- President is the elected spokesperson for the board.
- State laws define legal obligations of boards of directors.
- 1996 Taxpayer Bill of Rights created additional penalties for conflict of interest transactions involving directors of non-profit organizations.

2. They act as agents of the owners

- They have the authority to organize and act to carry out the purpose for which the corporation was formed.

3. They have a fiduciary responsibility for the proper use of resources entrusted to the corporation

- They must ensure that those "at interest" personnel (management, employees and volunteers) function in ways that further the corporation's mission.
- Since "at interest" individuals derive their livelihood from the corporation, their interests and those of the corporation may not always be perfectly aligned.

Board Responsibilities

Responsibilities describe how the board carries out its agency function. These responsibilities define what the board does.

1. Mission accomplishment

- Define the organization in both the present (what we do) and future (what results we want to achieve).
- Approve or affirm the mission.
- Approve or affirm the key goals that will result in mission accomplishment or vision actualization.
- Ensure that operating plans and strategies lead to attainment of these goals
- All other responsibilities flow from and depend on the fulfillment of this one.

2. Leadership

- Select and support the individual empowered to lead the organization.
- The leader's role is to transform the mission into productive work.

3. Conduct of operations

- Define the moral, ethical and operating standards of conduct that reflect the values inherent in the mission.
- Ensure that all operations are safe, legitimate and mission focused.
- Ensure that the organization is in compliance with all legal obligations.
- Ensure that facilities and equipment are appropriate and well maintained.
- Ensure that all products and services are delivered in a manner consistent with the values contained in the mission.
- Ensure that employees, volunteers, vendors, and suppliers are treated in a manner consistent with the values contained in the mission.

4. Financial health and accountability

- Protect and enhance the resources needed to accomplish the mission.
- Ensure these resources are used for legitimate purposes.
- Ensure that resources are allocated effectively among competing uses.
- Ensure that appropriate financial controls are in place.
- Ensure that capital investments are appropriate and provide the resources needed to carry out the mission.

5. Organizing and managing itself

- Organizing the board to carry out the functions of governance.
- Boards cannot fulfill their first four responsibilities unless they do this one well.

The Role of the Board

Roles describe how the board carries out its fiduciary function. These roles define how the board acts.

1. Policy formulation

- Formulation of policy is the primary mechanism boards use to influence the organization.
- Policies provide the guidelines that enable consistent decision-making.
- Policies provide the framework for the board's decision-making role.
- Policies are the means by which the board delegates its authority.
- Levels of policy.
- **Statement of Board Responsibility**- define the domain of governance and differentiate board responsibilities from management responsibilities.
- Should be written for each board responsibility area.
- **Board policies**- provide guidelines for board decision-making and communicate the board's expectations to management.
- Flow from the applicable Statement of Board Responsibility.
- **Operating policies**- formulated by management to guide operational decision-making.
- Must be consistent with board policies.

2. Decision making

- Board decisions are primarily strategic.
- Should be driven by policies to ensure consistency and focus.
- Scope of board's decisions must be clearly defined.
- Use of a decision rule can ensure that the thinking of all board members contributes to board's decisions.
- A Facilitator's Guide to Participatory Decision-Making by Sam Kaner describes some common decision rules.

3. Oversight

- Ensures accountability for fulfilling the Board's responsibilities.
- It consists of measuring and evaluating performance and taking corrective action when needed.
- This role requires a governance information system to provide timely feedback.

The Work of the Board

Combining the Board responsibilities and roles produces a matrix which defines the work of the Board. Each cell represents what the Board should do and how it should do it. The following matrix illustrates the work of the Board:

		ROLES		
RESPONSIBILITIES	Policy Formulation	Decision making	Oversight	
Mission	Formulate policies regarding development, review, and approval of mission, operating plans, and budgets.	Approve mission and any changes. Approve and authorize the annual operating plan and the supporting operating and capital budgets.	Appraise performance and appropriateness of any management corrective action taken. Ensure compliance with board policies.	
Leadership	Define CEO's accountabilities and how performance will be appraised.	Select CEO. Determine compensation and annual increases.	Appraise CEO's performance.	
Conduct of Operations	Formulate policies regarding personnel, facilities, maintenance, safety, financial controls, and other legal requirements.	Approve all policies formulated by management that involve legal, regulatory, or external, issues.	Appraise and audit operations to ensure compliance with board operating policies.	
Financial Health	Formulate policies regarding financial reporting and controls, control and reporting of contributions and donations, and financial auditing.	Select independent auditor, review, and approve audit report. Approve financial investments and financing choices.	Monitor and appraise revenues, expenditures, and cash position. Ensure compliance with board financial policies.	
Board Organization and Development	Formulate policies regarding board member selection and expectations, board member orientation, board development, board committee assignments, board planning and performance evaluation.	Approve by-laws and amendments. Select board members. Elect board officers. Approve board committee appointments, board work-plan and annual board budget.	Develop a board information system to provide the information needed to carry out the board's oversight role. Appraise board performance.	