Good Governance Guide

Stewardship

Governance Institute of Australia

Not-for-profit sector

Governance encompasses not only the system by which organisations are controlled, but the mechanisms by which organisations and those who comprise them are held to account. The concept of stewardship recognises the responsibility of those who control not-for-profit (NFP) organisations to develop and maintain an enterprise-wide recognition that the organisation is managed for the benefit of the purpose for which it has been established (which often is for its members), taking reasonable account of the interests of other legitimate stakeholders.

It is **good governance** for a NFP organisation to understand and document:

- the identities and roles of key stakeholders (for example, board of directors, members, executive management and in some cases service recipients)
- the powers vested in each stakeholder and the basis on which such powers rest (for example, do the powers arise from legislation, the constitution or other authorising documents?). The organisation needs to check that the constitution is up-to-date.
- the reporting responsibilities of each stakeholder and the identity of the stakeholder to whom the reporting obligations are owed (for example, the CEO reports to the board, the board reports to members and may also report to the community in which it operates or it may have reporting obligations to a regulator)
- the extent of board, member and executive management's decision-making powers respectively.

Governing body

It is **good governance** for the governing body (which could be called a 'board', 'council', 'synod' or a 'management committee') to:

- establish a mission and values statement detailing the objectives of the organisation (remembering that these must reflect the objects within the constitution)
- ensure that the mission and values are embedded in the culture of the organisation by inclusion in:
  - a code of conduct — see *Good Governance Guide: Corporate code of conduct*
  - the employee and volunteer induction program
  - policies governing employee and volunteer activities, including employees acting as volunteers for other organisations
  - the risk management policy
  - policies governing stakeholder engagement.

A board of directors is responsible for the governance of the organisation: they cannot abdicate that responsibility. There will usually be a clause in the organisation's constitution that allows the directors broad ability to delegate their collective powers, but not their responsibility, to others.

The board should also undertake a regular assessment of the board's role and performance against the mission and values statement. Regular assessment of fulfilment of the organisation's mission will guard against the risk of 'mission drift' (not an uncommon risk when boards and managers change rapidly or frequently).

Culture

An organisation's culture is the sum of its shared values and behaviours. Culture is a key determinant in the performance of an organisation and its capability to achieve its objectives. It goes to the heart of the openness and transparency needed for effective stewardship and informed decision-making.

The board defines and sets the culture of the organisation. Management implements the values and behaviours as defined and set by the board as appropriate for the culture of the organisation.

Tools for effective governance

The governing body needs to develop:

- a board charter that sets out how the board operates, the responsibilities of the board and the matters reserved to the board. Matters reserved for the board of directors will vary greatly, depending on the size of the organisation and the composition of the board — see *Good Governance Guide: Separation of authority between board and management*

- a board skills matrix that identifies the skills, capabilities and perspectives desired of a board to enable it to meet both the current and future challenges of the organisation — see *Good Governance Guide: Creating and disclosing a board skills matrix*
- a policy on delegations of authority — see *Good Governance Guide: Issues to consider when developing a policy on delegations of authority*
- a policy on diversity, both on the board and within the organisation as a whole — see *Good Governance Guide: Issues to consider in developing or reviewing a policy on diversity*
- proper fundraising policies and ensure that pro formas are in place to meet federal and state legislative requirements
- a policy on conflicts of interest and related party transactions. Since the interests of stakeholders in NFP organisations are often more diffuse than the interests of, say, shareholders in companies, there is considerable scope for a perceived or actual conflict of interest to manifest itself — see *Good Governance Guide: Issues to consider when developing a policy on disclosure of and voting on matters involving a director's material personal interests* and *Good Governance Guide: Issues to consider when developing a policy or process for managing related party transactions*.

Conflicts of interest arise when the interests of directors (or those of their families, friends or other organisations with which they are involved) are incompatible or in competition with the interests of the NFP. Such situations present a risk, real or perceived, that directors may make decisions based on these external influences, rather than the best interests of the NFP organisation. Conflicts of interest can manifest as direct or indirect financial benefits, or conflicts of loyalty. Directors may have competing loyalties between the NFP to which they owe a primary duty and some other person or entity. This is particularly common in relation to local authority or funder representatives on boards, or where a director serves on the board of more than one NFP organisation. The law relating to how some of these conflicts must be managed may vary depending on how the NFP organisation is incorporated.

Among the key assets of a NFP organisation are its brand and reputation, which like any other asset should be carefully managed and protected. It can take a long time for a NFP organisation to build its profile and reputation as an organisation people can trust. This reputation can be destroyed very quickly despite the best intentions of the board and management, if actual or perceived conflicts of interest arise and are not properly managed.

Committees

Board committees assist the board in discharging its responsibilities and dealing with the core functions of the organisation, such as audit and risk, or other functions of relevance to the organisation, such as public relations, medical advisory, social responsibility etc. They should be established with clear charters or terms of reference — see *Good Governance Guide: What a board committee charter should address*.

Risk management

A risk management policy is central to good stewardship. Directors have a fiduciary duty to act in the best interests of the organisation. In order to discharge their duties, directors need to know, and properly assess, the nature and magnitude of risks faced by the organisation.

Boards take responsibility for the governance of risk and delegate to senior management the responsibility to establish a sound system of risk management and internal control, and the requirement to report regularly to the board on the effectiveness of that system. The board tests the effectiveness of that risk management system from time to time through assurance providers such as internal and external audit.

The board is ultimately responsible for deciding the nature and extent of the risks it is prepared to take to meet objectives. Setting the risk appetite explicitly articulates the attitudes to and boundaries of risk that the board expects senior management to take.

The board needs to be particularly sensitive to strategic risk; the risk that the way in which the organisation is pursuing its objectives is not the most effective and efficient way to achieve those objectives.

Stakeholder engagement

It is **good governance** for a NFP organisation to:

- recognise the benefits of stakeholder engagement
- define the interests of all stakeholders, and
- develop an understanding of the role that stakeholders have in or with the organisation.

Stakeholder engagement should link to the mission of the organisation.

Stakeholders broadly include:

- those who are the focus of the organisation's activities and services
- those directly involved with or responsible for the activity of the organisation
- those who devise, pass, and enforce laws and regulations that affect the function of the organisation
- other authorities that interact, partner or collaborate with the organisation, and
- those with an interest in its processes or the outcome of its activities.

The organisation should establish effective communication strategies to ensure that stakeholders' needs are met by choosing the most appropriate methods and technologies to inform, consult, involve, collaborate with and engage the various stakeholders in a timely manner. This can include information on the organisation's website or in the annual report as well as the use of social media and other evolving forms of engagement. It is important to tailor the interaction process by considering the unique characteristics of stakeholders, including the nature and intensity of their interest, and decide which approaches are best suited to particular groups.

Fostering a two-way, inclusive dialogue with stakeholders is necessary for the sustainability of NFP organisations. Therefore, it is vital that the communication strategy delivers the transparency that stakeholders demand in an engaging, enriching way. It should also be recognised that having meaningful engagement with stakeholders is much more than communicating to them. Stakeholder engagement requires clear guidance and objectives to use resources effectively and an ability to recognise what is required in terms of time, resources and skills for meaningful two-way dialogue and participation.

It is important that the board ensures that a fully informative annual report of the organisation's operations is prepared and presented to members and made available to the community in which it operates. Typically, this means going beyond the minimum statutory reporting obligations of the particular organisation.

Stakeholder engagement can include:

- developing a clearly documented stakeholder engagement plan
- developing a communication policy, that may include a media policy, or it may be separate from it
- evaluating the success or otherwise of the strategic engagement plan for stakeholder management.