Leading Your NGO

Corporate Governance

A Reference Guide for NGO Boards

June 2002

"Effective governance and accountability begin at home: in one's own organisation, no matter how large or small….This means ensuring that the appropriate processes and structures are in place to direct and manage an organisation's operations and activities, and to ensure that they function well.   The ultimate goal of good governance is to ensure the effectiveness, credibility and viability of the organisation."

(*Building on strength: improving governance and accountability in Canada's voluntary sector*,
Final report of the panel on Accountability and Governance in the Voluntary Sector, February 1999)

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Preface

Hong Kong's community should take pride in having dedicated volunteers serving as Board members on a large number of Non-governmental Organisations (NGO) providing a wide range of welfare services. Their contribution is a strength of our social welfare system. They are the stewards and leaders of the services valued by our community. Through their collective acts and deeds, we are building Hong Kong into a caring community.

We all agree that Boards of NGOs, despite their voluntary nature, are publicly accountable bodies, responsible to their stakeholders for the effective management of public funds, donations and services entrusted to them and of staff in their employment. This accountability ranges from the way in which the Board conducts its affairs, and the means by which it ensures the resources at its disposal are put to the best use, to the way in which it informs its clients and stakeholders of its activities and achievements.

As society develops, there are higher standards for accountability and corporate responsibility. Despite their not for profit nature of operation, many NGO Boards have responded actively and responsibly to such community expectations. This is further heightened by the introduction of new ways of funding social welfare services by the Government. With increased autonomy and flexibility in managing resources under the newly implemented Lump Sum Grant (LSG) System, NGO Boards are facing an increasing public scrutiny and requirement of accountability from their service users as well as their staff, and from the public at large.

The Social Welfare Department has a duty to work with NGO Boards to respond to the challenges brought about by the new subvention system. This, however, does not mean that the Department will "teach" what NGO Boards should do or how they should perform. Indeed, many NGO Boards have already established sound principles and procedures to guide their operations. The Department's role is to facilitate the sharing of information, best practices and experience in corporate governance issues amongst NGOs. Basically, our role is to support, not dictate. The Department has kicked start such work with the Seminar on Corporate Governance jointly organised with The Hong Kong Institute of Directors in May 2001. This reference guide on Corporate Governance is another move in that direction.

The Department fully recognizes the diversity of NGOs in Hong Kong, each with its own historical background, vision and mission, size and organisational structure, etc.   In finalizing this reference guide, the need to meet aspirations for good practices, and at the same time not to discourage volunteer participation of Board members is fully appreciated. Board members are requested to read this reference guide with the understanding that the practices suggested are not intended to be rigidly followed by every NGO Board.   Indeed, the size of the NGO and other factors may affect the extent to which some of the suggested practices can realistically be adopted.   NGO Boards are however encouraged to test their corporate governance against these suggestions to see if improvements are necessary.

The reference guide has been circulated in draft form for consultation within the sector.   We are much encouraged by the positive response from the sector.   Respondents generally endorse the direction that we need to have a range of principles and good practices for reference by NGO Boards.

Finally, I have to thank all those NGO Boards who have sent in their comments, the Lump Sum Grant Steering Committee particularly the Working Group on Corporate Governance, with Ms Virginia Chan, Mrs Grace Chan, Mrs Justina Leung and Mr Yu Chi-ming as members, for their contribution.   I hope the publication of this reference guide will meet the needs of our NGO Boards in Hong Kong in striving for higher quality welfare services.

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Chapter 1   Corporate Governance Explained

1.1   Corporate governance is the set of principles and practices adopted by a Board – whether in the private or social welfare sector – that assure its key stakeholders that the organisation is being managed effectively and with appropriate probity.   It provides the structure through which the objectives of the organisation are set, and the means to obtaining those objectives and monitoring performance are determined. Typically, the corporate governance framework should ensure the strategic guidance of the NGO, the effective monitoring of the NGO's management by the Board, and the Board's accountability to its stakeholders – its clients, the government (as a source of funds) and the community.

1.2   There is no single model of corporate governance.   Each NGO is unique, and the particular arrangements it puts into place for good corporate governance will be influenced by that uniqueness.   However, there is a widely held understanding about the sort of practices that support good governance.   This reference guide provides an introduction to a range of good practices for NGO Boards to use as a reference in designing their own arrangements.

1.3   Together with guiding corporate strategy, the Board is chiefly responsible for monitoring organisational and managerial performance, ensuring appropriate stewardship of the NGO's financial resources, and balancing competing demands on the NGO.

1.4   In order for the Boards to effectively fulfil their responsibilities, they must have a high level of independence from the NGO's management.

1.5   The Board must also ensure that systems are in place for the NGO to meet its accountability requirements to the Director of Social Welfare under the subvention system, to obey applicable laws, and to deal fairly with all stakeholders' interests, including that of the clients, staff and local communities.

Key roles for Boards in corporate governance

1.6   Research shows common tasks that make up the corporate governance role of a Board – this applies equally to the volunteer Board member of an NGO as it does to the remunerated director of a publicly listed company.   These common tasks include –

(a)   Contributing to, evaluating, approving and monitoring core business strategies developed by NGO's management;

(b)   Monitoring agreed performance measures linked to NGO strategies and comparing this with those of relevant organisations;

(c)   Recruiting, supporting, evaluating, rewarding and, if necessary, terminating the Chief Executive Officer/General Secretary (CEO).   This also involves the Board in succession planning;

(d)   Ensuring that stewardship frameworks are in place. Stewardship includes establishing policies on risk management, financial controls, internal controls, compliance and public reporting;

(e)   Accepting accountability and responsibility to stakeholders of the NGO;

(f)   Being transparent, including communicating to members, stakeholders and the public, and making information available upon request;

(g)   Developing appropriate structures and ensuring the Board understands its role, operates efficiently and effectively, and avoids conflict of interest;

(h)   Enhancing the reputation of the NGO in the social welfare sector and the community.

1.7   Underlying these roles is the fact that the Board is responsible for creating an environment in which the NGO is able to provide real value to its stakeholders.   For NGOs, this means –

(a)   Effective and valued social welfare services;

(b)   Accountability to funders; and

(c)   Trust and respect of the community.

NGO Board member

1.8   Each Board is made up of a group of individuals who, as Board members, operate collectively in the interests of the NGO.   One of the most vital roles of the NGO Board is the appointment, training and evaluation of its members, both individually and as a group.

1.9   There are four characteristics of an "ideal" Board member –

   (a) A team player, but able to maintain independence of thought in critically analysing business options;

   (b) Prepared to make the commitment of time and effort required to properly fulfil his or her duties and responsibilities as a Board member;

   (c) Inspires ethical behaviour in others, and whose presence on the Board enhances the reputation of the NGO; and

   (d) Takes a strategic but flexible approach to key issues.

1.10   Experience in selecting Board members has identified that a strong emphasis on personal qualities such as courage, integrity, honesty, decisiveness, and a willingness to listen and learn are personal qualities that may be as important as academic qualifications, business experience and technical know how on the Board.

1.11   The characteristics and commitments of NGO Board members are critical.   The work of NGO Boards is too important.   Accepting and managing the NGO's responsibilities require active and engaged Board members.

Board's responsibilities

1.12   As a group, the Board members have collective legal responsibility for the governance of the NGO.   The Board members are responsible for the oversight of the NGO – the NGO's management operates under the direction of the Board, not the reverse.   This does not mean that Board members become involved in micro management of the NGO.   On the other hand, the Board has a responsibility to set the parameters within which the NGO's management will operate, the results

that are expected, and the necessary reporting required for the Board to effectively monitor and meet its responsibilities to the NGO.

1.13   A Board member should keep himself/herself fully informed of the legal responsibilities and types of liability they may face. It is a matter of good practice for the Boards to ensure appropriate indemnity insurance for their Board members. However, indemnity coverage is only effective if Board members act in good faith and with reasonable diligence and probity.

1.14   Specific legal responsibilities will arise from the ordinance under which the NGO is established. However, there are three broad principles of conduct that are applicable to all Board members. These are –

> (a) **Duty of care** – Board member must attend meetings, be prepared to make informed decisions by reading the information provided and requesting additional information if required, and carry out duties in a reasonable and responsible manner.
>
> (b) **Duty of loyalty** – Board member must make decisions in the best interests of the NGO solely, not any group he/she represents, and never for personal gain.
>
> (c) **Duty of obedience** – Board member must be faithful to the NGO's mission and is not permitted to act in ways that are inconsistent with the central goals of the NGO.

1.15   Some Board members may not always meet these standards. Appendix 1 outlines the main pitfalls and characteristics of "bad governance" that any Board has to guard against through good practices.

Distinguishing between strategic oversight and management

1.16   The Board provides strategic oversight to the NGO but it does not exist to manage the NGO.   Managing the NGO is the CEO's role which he or she takes up under delegation from the Board.   Appendix 2 provides a summary of a separation of the respective roles of the Board and the management.

1.17   The Board appoints the CEO and provides him or her with sufficient delegated authority to manage the NGO on behalf of the Board. The CEO reports to the Board and is primarily responsible for carrying out the strategic plans and policies established by the Board.   The management of the NGO generally undertakes planning, strategy and policy development, and budget formulation on the Board's behalf, but it is the Board that must formally endorse these tasks to give them formal status.

1.18   The Board should avoid getting involved in day-to-day management of the staff and operations of the NGO – this is why the Board has appointed a CEO to carry out these management tasks on its behalf.

In summary – good governance

1.19   The following sections of this reference guide provide more details on good practices in different areas of corporate governance and the key features may be summarised as follows –

(a) Active and committed Board members who approach their important task in full knowledge of what it entails and with due responsibility;

(b) Focused on the key roles of strategic oversight, financial and performance monitoring, and accountability to stakeholders;

(c) Well defined policies and practices that provide ethical and responsible direction to the management and staff of the NGO; and

(d) Self-analysis, critique and reflection that enable the Board to continuously improve its corporate governance role.

Chapter 2   Managing The Board

2.1   First and foremost, the NGO Board holds a position of trust – for the clients who access the services under its oversight, and for the people and organisations which provide funding.   That means the Board must manage itself in the best interests of its stakeholders.

2.2   As a minimum, the Board has to design processes for its governance that will allow it to carry out the following stewardship functions –

      (a) Accountability

      (b) Financial control

      (c) Compliance

      (d) Policy & procedures

      (e) Public reporting

      (f) Risk management

The role of the Chairperson

2.3   The Chairperson plays the most important role on the Board. He or she is responsible for approving the agenda of the Board's business, managing all meetings and providing leadership in the Board's actions to ensure that it complies with the principles of good corporate governance. The time requirements of the Chairperson tend to be greater than any other member of the Board.

Board member's commitment

2.4   It is well recognised that members of NGO Boards are deeply committed to the causes and clients that their NGOs exist to serve. However, Board membership carries with it a broader set of commitments than just adherence to the NGO's mission.   As part of the management of the Board and meeting the tests of good governance, Board members are also committing themselves to –

(a) Allocate adequate time to attend meetings, review Board papers and participate in Board sponsored events;

(b) Understand the role and mission of the NGO they serve;

(c) Work collectively with fellow Board members to provide effective leadership to the NGO's management and staff, and accountability to stakeholders;

(d) Accept their responsibilities and act in the best interests of the Board and NGO.

Recruiting Board members

2.5   It is the Board that recruits members to the Board – not the management of the NGO.

2.6   Recruiting members is an important responsibility of the Board. Recruitment is the way the Board ensures that it continues to have the right mix of skills needed to fulfil its role of strategic guidance and oversight. This is not a role that the Board should delegate to the management.

2.7   The importance of independence in the selection of members cannot be stressed sufficiently, as the Board must be independent of the management in order to fulfil its governance responsibilities.   Many Boards in the private sector maintain a permanent Board Nomination Committee, whose role is to seek new members as required.

2.8   As part of the recruitment process for potential members, it is necessary for the Board to clarify what will be expected of them, including role, minimum commitments (time, meetings, committees, other events) and legal responsibilities etc.   Many Boards prepare formal duty statements for their Board members.   These are very useful for outlining what roles a Board member is expected to play and the required level of performance.   In the worst case, such statements help in the evaluation of non-performing Board members.

2.9   Recruitment does not end with the new member saying yes – a new Board member needs to be inducted onto the Board.   This can involve visiting the NGO and being briefed about its operations, being

provided with an information package that lays out the legal constitution of the NGO, meeting rules and other policies and procedures to guide Board members, or any other information sharing arrangements the Board may put in place.

2.10   When recruiting members, NGO Board may consider the term of appointment.   Most Boards will have maximum term requirements documented formally in their rules or by-laws.

Meetings and record keeping

2.11   All the Board's business should be conducted through formally and appropriately constituted meetings – whether full Board meetings or committees established to advise the Board on aspects of the NGO's business.

2.12   All meetings should be fully documented.   That is, they should include –

    (a) Agenda;

    (b) Necessary papers to aid decision making by the Board, which should be circulated to members sufficiently in advance for their full consideration;

    (c) Minutes recording decisions made must be kept and endorsed by the Board at its subsequent meeting.

2.13   Procedures and rules for the Board's decision making activities should be documented and made clear to all members, including attendance requirements, quorum and voting, and management of conflict of interest.

2.14   Any committee established by the Board must also have a Board defined and endorsed role, clear membership, rules of procedure and, where relevant, formally delegated authority from the Board.   For example, if the Board established a small Executive Committee to progress matters between Board meetings, this committee must have properly constituted powers in respect of financial and other decision making.

NGO's support to the Board

2.15　　The NGO has a responsibility to support the Board in its corporate governance.　　Simple and practical steps should be available to ensure that Board members are able to provide appropriate strategic leadership and direction.　　These include –

> (a)　　Ensuring concise, well written papers are provided to Board members well in advance of meetings;
>
> (b)　　Verbal briefings during meetings are concise, precise and include all relevant facts to aid Board's deliberations and decisions;
>
> (c)　　Critical issues are given sufficient priority and are drawn to the attention of the Board in a timely manner;
>
> (d)　　Financial and other accountability information, such as performance reporting, are provided to the Board regularly and in a comprehensible form.

Good practices in managing the Board – How well does the Board rate?

2.16　　How the Board manages itself and its processes will be a critical indicator of how well the Board will be able to exercise oversight for the NGO and create value for its clients.

2.17　　The tasks that need to be carried out in the management of the Board include –

> (a)　　Preparation of a clear statement of the role and required duties of Board members – including attendance requirements.　　Board members should know what are expected of them before they take up a position on an NGO Board.
>
> (b)　　Promoting participation by Board members – participating actively in Board meetings and sub-committees, planning and other Board training and briefing sessions etc.

(c) Providing high-level guidance to the NGO – focusing on strategy, planning, performance and reporting. Do not micro-manage through involvement in day-to-day programme management activities unless there is a major issue that warrants the Board's intervention.

(d) Running effective meetings – ensuring the agenda and papers are prepared and forwarded to members in time for their familiarisation, sticking to agendas, encouraging full participation and debate. Keeping clear records of meetings and Board's decisions, and making the results of Board's deliberations available to any stakeholders with an interest in Board's decisions.

(e) Building Board's effectiveness through appropriate structures – including delegation of responsibilities to special committees. The determination of the sub-committee structure depends on the needs of individual NGO Boards – examples of common Board committees include an Executive Committee, Audit Committee, Board Nomination Committee, Planning and Evaluation Committee, Staff Remuneration Committee, Service/Programme Committees.

(f) Assessing performance – putting in place a process for evaluating effectiveness of the Board (joint and individual) and governance structure. This should take place formally at least once a year as part of the Board's review processes.

(g) Managing the Board's composition – ensuring members add value and the right mix of skills.

(h) Maintaining independence – ensuring a majority of Board members are truly independent of the NGO's management. Independence is particularly required for any committee a Board might establish to handle matters relating to audit, board nomination and staff remuneration etc.

(i) Ensuring the Board understands its role and avoids conflict of interest. Desirably, this includes –

- Developing a code of conduct for Board members to help them understand, and ensure they agree to the obligations which they are undertaking;

- Establishing and enforcing a written conflict of interest policy governing Board members and staff who have decision making authority over the resources of the NGO;

- Providing role statements for Board members that outline general duties and how the Board's work will be evaluated;

- Investing in Board members with orientation and ongoing information sessions – briefing new Board members, regular sessions for all members that keep them up-to-date with important issues that affect their governance roles.

Chapter 3   Strategic Leadership

3.1   NGOs are founded for the public good and operate to achieve a clear purpose through specific programmes.   An NGO should put in place a clear vision and mission, backed up by strategic planning and programme evaluation to ensure that programmes are delivered to meet the fundamental purpose of the Board.   Setting the vision, mission and strategy of an NGO is the most important role the Board undertakes. It provides the framework within which the management of the NGO operates under the Board's direction.   The development of organisational mission, vision and supporting strategies is a role that is ideally completed in partnership with the management of the NGO.   The commitment of the management is required to achieve the desired outcomes.

Providing the strategic framework

3.2   There is no single way to go about this.   In general, it is the role of the NGO's management to put forward strategies for Board's endorsement, and the Board's function is to pass judgement on and add value to strategies devised by the management.   In other instances, the NGO Board is the active leader in developing the strategies.   Whatever method is chosen, acceptance of responsibility for strategic leadership by the Board is a must.

3.3   The Board should have in place a process for establishing and reviewing the NGO's mission and vision.   As these provide an overarching framework for the purpose of the NGO, they do not have to be revisited every year – although it is a good practice for the Board to reaffirm on a regular basis that its mission remains relevant.

3.4   In providing the framework, the Board engages in strategic foresight – picking the best approach to achieve the agreed mission. The key Board functions relating to strategic foresight include –

(a) Strategy setting and development (with the management) which involve establishing a process to develop strategy, ensure it is applied, and link the results to the mission; providing an ongoing and strong overview of the agreed

strategy and being prepared to ask the senior management hard questions about its achievement and continued relevance; and Board members periodically satisfying themselves that the strategy of the NGO is appropriate;

(b) Strategic support (for the management) which includes providing visionary and high level thinkers, challenging constructively the annual and other business plans, validating business goals, reviewing budgets/forecasts prepared by the management, ensuring resources are sufficient, and reviewing regularly whether the services offered are right for the future.

3.5   In addition to setting the purpose of the NGO through the mission, the Board is involved in short term and long term strategy making. Short term usually means one or two years and this is generally the annual operating plan for the NGO.   Long term strategy making is where the Board looks to the future and plans a course of action which means that its services will remain relevant, up-to-date and meeting the needs of the communities it serves.

3.6   Many NGO Boards already have processes in place for both short and long term planning.   However, all can benefit from revisiting these to ensure the Board that the structures are in place to support the NGO (as an ongoing concern in the long run).

Is the Board fulfilling its strategic role?

3.7   A checklist of good practices –

(a) Formally agree, state and publish the purpose (mission) of the NGO;

(b) Periodically review this mission to determine its relevance and whether the strategies chosen to support it and the programmes to deliver it are still required;

(c) Oversee the management's preparation of operations (annual) and strategic (2 years +) plans, and ensure that the strategies and programmes chosen are consistent with the stated mission;

(d) Establish a schedule of programme evaluation – all the services and programmes operated by the NGO should be reviewed for effectiveness periodically;

(e) Evaluate programmes, qualitatively and quantitatively, against the mission. The evaluation should travel beyond efficiency to determine whether appropriate outcomes are being achieved for clients and the mission is being fulfilled;

(f) Evaluate the NGO's performance against its organisational peers – are services provided as innovatively and effectively as they can be?

3.8   Appendix 3 provides a simple checklist against which a Board can measure its preparedness for this strategic role.

Programme evaluation

3.9   Setting the strategy through formal plans is only part of the picture of strategic governance by a NGO Board. Without systematic evaluation, monitoring and review, strategic planning is a hollow exercise.

3.10   All NGO Boards should put in place defined and cost effective procedures for evaluating, both quantitatively and qualitatively, their strategies and programmes, and how they are contributing to the NGO's mission. This can be done in a number of ways –

(a) Establishing clear targets and indicators, and requiring regular reporting at Board meetings of progress against them; and

(b) Conducting formal review processes where progress is mapped, outcomes for clients are detailed and an assessment of the ongoing relevance to the NGO's mission is made.

3.11   The purpose of programme and strategy evaluation is not to check that the strategy is being merely followed. It is to enable the Board to assure itself that the strategies and programmes are achieving the outcomes required. Strategies should be modified or dropped as circumstances change or results show that they are not achieving their original objectives.

3.12   Thus the Board must set in place a programme of evaluation that is candid, non–judgemental and professional, is used to strengthen the effectiveness of the NGO, and guides future strategy making and programme design.

Chapter 4   Financial Responsibilities

4.1   NGOs must practise sound financial oversight and comply with a diverse array of legal and regulatory requirements.   With the introduction of the Lump Sum Grant, NGO Boards have more freedom over the disbursement of government funding, and therefore more accountability to maintain appropriate financial procedures to assure themselves that their NGO is operating within its means and with due efficiency and probity.

4.2   Maintaining fiscal responsibility is an important governance responsibility for the Board.   Depending on the legal circumstances of the establishment of the NGO, there are legal requirements on how money is accounted for and how spending is reported.   In addition, the Social Welfare Department requires a minimum range of financial practices and reporting that are outlined in the Lump Sum Grant Manual. The NGO Board has ultimate responsibility to ensure that these requirements are met.

4.3   Under these circumstances, Board members must be aware of the importance of the Board paying serious attention to the finances of the NGO, and ensuring they are fully understanding of and briefed about the current and projected financial position.

4.4   The key financial functions undertaken by the Board are to –

(a) Approve a budget that reflects the NGO's priorities and that it is based on realistic assumptions of funding, costs, and other factors;

(b) Monitor and control expenditures on the basis of appropriate accounting procedures – expect and receive up-to-date financial statements at each Board meeting and allow adequate time for their full consideration;

(c) Oversee the stewardship of the NGO's assets and liabilities;

(d) Approve annual reports, including financial statements.

Basic requirements for managing financial responsibilities of the Board

4.5   The basic requirements for managing the financial responsibilities of the Board are listed as follows –

(a)   A NGO should operate in accordance with an annual budget that has been approved by the Board.

(b)   Financial reports should be created and maintained on a timely basis that accurately reflect the financial activity of the NGO and allow the Board to monitor financial performance.

(c)   The accuracy of financial reports should be subject to external audit by a Certified Public Accountant.

(d)   Internal financial statements should be prepared no less frequently than quarterly, should be provided to the Board, and should identify and explain any material variation between actual and budgeted revenues and expenses.   The Board must formally ratify any financial statements, or reject them if they are not appropriate.

(e)   The Board should provide staff with a confidential means to report suspected financial impropriety or misuse of the NGO's resources.

(f)   The Board should have written policies governing

- Investment of the assets of the NGO;

- Internal control procedures;

- Purchasing practices; and

- Reserve funds.

4.6   Research into corporate governance, whether for-profit or not-for-profit, emphasizes the critical role played by an Audit Committee in maintaining adequate corporate governance by the Board.   As the process of managing and controlling an NGO becomes more complex, NGO Board will need more assistance in performing its duties and discharging its responsibilities.   Therefore, an Audit Committee may be established to give the Board additional assurance regarding the quality and reliability of financial and other performance information used and issued (for reporting and accountability purposes) by the Board.

4.7   Establishing an Audit Committee, or something similar, is widely considered a good practice in corporate governance in both the for-profit and not-for-profit sectors.   Appendix 4 provides further information on the possible roles of an Audit Committee.

Chapter 5 Staff Leadership Through The Board

5.1   A NGO's responsibilities include that of legal employer of all staff within the NGO it directs.   It also has responsibilities for the actions and well-being of any volunteers that may be involved in its activities.   Minimum legal responsibilities are covered by the Employment Ordinance.   This is managed on the Board's behalf by the CEO.

5.2   In addition to meeting its minimum legal liabilities as an employer, a Board should keep in mind that it is dependent upon the relationship the NGO has with its employees as they are fundamental to its ability to achieve its mission.   The Board, through its strategy and policy making role, provides a framework for the management of staff by the CEO – communicating values, mission, clear direction and operating as a fair employer.

5.3   The main functions relating to people management for which the Board has direct responsibility are –

    (a) Selection of CEO;

    (b) Establishment of appropriate delegation of powers to senior management (and ensuring that it is documented and monitored);

    (c) Evaluation of the performance of the NGO's management, particularly the CEO;

    (d) Setting remuneration of NGO's management;

    (e) Succession planning for the NGO's management.

5.4   Ensuring that an effective management team is in place and overseeing its activities is a key corporate governance role for any Board. After all, its responsibilities for the NGO are primarily carried out through the NGO's management.   Therefore, the Board must oversee the establishment of a management team whom it can trust and to whom it can delegate authority.

5.5   As an employer, a NGO Board should delegate to senior management the responsibility to –

(a) Ensure the NGO complies with the Employment Ordinance, workplace safety regulations and reviews its employment arrangements periodically to ensure they comply with good practice;

(b) Ensure staff are provided with job descriptions, orientation, management, training and performance appraisals;

(c) Ensure that staff have the skills for the job they occupy and comply with any statutory or professional regulations;

(d) Ensure staff are openly, fairly and systematically recruited;

(e) Review periodically the staff structure and effectiveness of the working relationship between the Board and staff.

5.6   Delegating these employer responsibilities does not absolve the Board from assuring itself that the NGO is fully compliant with regulatory requirements and good employment practices.   This can be achieved through external review or including the monitoring of this as part of an Audit Committee's remit.   What it does require is that the Board collectively agree the human resource management policies and practices that it requires implemented.   The following checklist provides some guidance on this.

5.7   Has the Board set in place an appropriate policy framework for managing the NGO's human resources well?   A checklist of indicators –

(a) The Board has written personnel policies and procedures that are regularly reviewed and updated – these should cover recruitment, remuneration, performance appraisal and standard work rules for all staff.

(b) All staff have access to these policies and procedures, and are fully briefed on them when joining the NGO.

(c) The role definition, remuneration and employment of the CEO is undertaken by the Board.

(d) The Board conducts an annual performance appraisal of the CEO against agreed criteria.

(e) All staff have an up-to-date job descriptions, including required qualifications, duties, reporting relationships and performance measures.

(f) The NGO requires staff appraisals to identify areas for performance improvement or training and development – this is conducted and documented at least annually for each staff member.

(g) The NGO has an effective and timely process of succession planning, and filling vacant positions to ensure that limited disruptions are caused to the NGO's services or operations.

(h) All recruitment includes full checks on the suitability of the preferred candidate – including verification of qualifications and any relevant past experience.

(i) New staff, whether employees or volunteers, receive an orientation which includes a review of the NGO's personnel policies and procedures, their rights and responsibilities as staff, and expectations in respect of performance and appraisal.

(j) Appropriate training policy and plan exist to ensure the NGO benefits from up-to-date skills and the employees are appropriately professionally developed.

(k) The Board has a process for reviewing and responding to ideas, suggestions, comments and perceptions from staff.

(l) Up-to-date records are kept of all personnel transactions, and individual staff have access to transactions relating to themselves and any personnel file that is kept about them.

5.8   Appendix 5 provides a checklist of the types of human resource policies and procedures that a Board might require, depending upon the size of the staff management task in the NGO.

Chapter 6   The Board And Its Stakeholders
– Ethics And Communication

6.1   NGOs hold positions of considerable community respect, and are responsible for delivering services to some of the most vulnerable members of our community.   This places a significant burden of trust upon them.   Ensuring that appropriate corporate governance guides a Board's dealings and actions is one way of responding to that trust.   As NGOs are private organisations, but operating for public purposes with public support, it is incumbent on the Boards to ensure that their key stakeholders (clients, government and donors) are dealt with openly, honestly and responsively.   NGOs should be accessible to members of the community who express interest in their affairs.

6.2   The main Board functions linked to management of ethics and communication include –

(a) **Creation of the ethical tone of the NGO** – maintaining an ethical culture, setting the tone, establishing and monitoring corporate values, guarding the integrity of the NGO.   In particular, the ethical approach of an NGO covers how it treats its clients with respect, professionalism and dignity.

(b) **Protection of reputation** – managing reputation of the NGO, public relations and networking, acting as ambassadors for the NGO and building an appropriate relationship with stakeholders.

(c) **Acceptance of social responsibility** – often called 'corporate citizenship' but relating to how the NGO deals with the broader community and demonstrates how it is fulfilling its position of trust.

(d) **Providing reporting and feedback** – ensuring that the NGO reports to its stakeholders honestly and openly, and establishing channels that will enable direct communication, particularly with clients and major funders.

6.3   Actions which a Board should take to meet its responsibilities in this area can include –

(a) Being transparent, including communicating to members, stakeholders and the public, and making information available upon request;

(b) Creating a value statement that will drive how the NGO behaves in its internal and external dealings;

(c) Maintaining a code of ethical conduct and an effective monitoring and complaint procedure;

(d) Providing clients with the means to express opinions on the service provided, and in particular, a mechanism for dealing with complaints speedily, fairly and openly;

(e) Establishing policies for communicating and receiving feedbacks from stakeholders;

(f) Ensuring that the complaint and grievance procedures work effectively;

(g) Holding regular Board meetings that provide an opportunity for discussion about values and communication;

(h) Providing a collective memory for the NGO by ensuring that appropriate minutes and documents are kept;

(i) Responding openly and appropriately to requests for information.

Chapter 7   Evaluating The Board's Performance

7.1   Finally, a well managed Board is interested in testing its own performance – is it operating within the principles of good corporate governance, creating value with the resources entrusted to it, fulfilling its broader obligations?

Collective performance

7.2   As part of good practice corporate governance framework, NGO Boards should establish simple but effective mechanisms for testing the effectiveness of the Board's performance.

7.3   In part, measures of the Board's performance might be included in the Articles of Association or Memorandum of Association of the NGO – this provides a framework for internal regulations, including a constitution and bylaws (these might be quite simple in small NGOs).

7.4   The Board may consider preparing role statements for its members. This provides a simple mechanism for ensuring that members understand their obligations and how their contribution will be measured.

7.5   Another possible good practice for the Board to consider is a compliance audit as an integral part of the annual evaluation cycle, to regularly check that the rules governing the NGO are being followed, and that control systems are functioning and adequate (this would normally be supervised by the Audit Committee).   Upon receiving the report of the Audit Committee, the Board then has a responsibility to respond, indicating how it has addressed issues of non-compliance identified by the committee.

7.6   Evaluation of the performance of the Board is a collective responsibility but should be led by the Chairperson.   For it to be a worthwhile exercise, it has to deal honestly and sensitively with issues of non-performance by the Board as a whole or individual members.   As with the programme and strategy evaluation regime that a good Board will have in place, there is no point evaluating something if the Board shies away from the difficult areas and has no commitment to implementing improvements.

Board member's performance

7.7   Modern Board evaluation increasingly includes a process whereby individual Board members evaluate their own performance and that of fellow members.   This is generally undertaken confidentially to ensure frankness but it is not a personality contest.   It is a hard look at how well individual members are contributing to the excellence of the Board's corporate governance and the discharge of its responsibilities. This form of evaluation is only realistic in a situation in which there are clearly understood standards of Board member's performance.

7.8   Appendix 6 provides a checklist of the questions that a Board may like to consider when assessing their collective and individual performance.

Dealing with non-performing Board members

7.9   A structured process for dealing with non-performing Board members should be included in the formal rules of operation of the Board. Non-performance can include –

    (a) Poor meeting attendance and not being prepared for the decision making role;

    (b) Deliberately disruptive behaviour;

    (c) Undermining the Board's decisions – refusing to accept a duty of obedience after a Board's decision has been passed or to uphold the mission and values of the NGO;

    (d) Acts of bad or illegal governance (see Appendix 1).

7.10   Dealing with non-performance must be handled by the whole Board.   However, in the initial stage, this is often a difficult but necessary role for the Chairperson to commence on behalf of the Board. This may be achieved by taking the member aside privately and discussing the difficulties with them (except in the instance of illegal governance actions which should be dealt with immediately by the Board).

7.11　　　While managing poor performance is not easy, it becomes simpler if the performance requirements of Board member have been formally documented and made known to all Board members.　This provides a standard against which performance can be more objectively measured and discussed.　A more traditional, but less effective way of dealing with poor performance is to use maximum term requirement so that a poorly performing Board member will eventually relinquish his or her appointment.

Avoiding "Bad Governance"

1.   There are actions that a Board member needs to be careful to avoid.   These include –

(a) **Self-dealing** – use of the Board member position for personal gain;

(b) **Usurpation of corporate entity** – operating against the advantage of the NGO in self-interest;

(c) **Mismanagement and non-management** – generally the result of inattention, negligence or incompetence.

2.   The first two of these can be managed by the Board establishing a clear policy on conflict of interest.   This policy generally applies to both the Board members and management staff.   Many NGOs require Board members to commit in writing that they do not have any conflict of interest arising from their membership of the Board.   A good conflict of interest policy will embody three key elements –

(a) **Full disclosure** – Board members and staff members in decision making roles should make known their connections with groups doing business with the NGO.   This information should be provided at least annually.

(b) **Board member abstention from discussion and voting** – Board members, who have an actual or potential conflict of interest, should not participate in discussions nor vote on matters affecting transactions between the NGO and the other group.

(c) **Staff member abstention from decision making** – Staff members, who have an actual or potential conflict of interest, should not be substantively involved in decision making affecting such transactions.

3.   Mismanagement or non-management is often the behaviour that NGOs have the most to fear and must guard against.   NGO Boards are managing resources entrusted to them by government and donors.   This requires the same commitment and care that a Board member should bring to their normal paid employment.

4.   Other forms of bad governance that may be committed by NGO Boards include –

> (a) Board members allocating insufficient time to know the NGO they are responsible for, and not treating their involvement as a serious commitment with responsibilities and risks;

> (b) Subverting duties by not asking the management hard questions or not demanding sufficient information to evaluate reporting or recommended actions arising from the management.

5.   NGO Boards are generally made up of achievers with many calls on their time. Even the most dedicated Board member might find it difficult to attend all Board and committee meetings, to read all the materials provided, and to think sufficiently and deeply about all the issues they are confronted with. In response to these pressures, some NGOs may keep meetings short, have less of them, and provide less information for Board members to read. However, the reality is that meaningful governance cannot take place on a Board that only spends a few hours every two to three months considering the issues. Many NGOs in Hong Kong are large businesses. This means that being a NGO Board member requires proper commitment as it carries real responsibilities.

Comparing Board And Management Responsibilities

Function	Major Responsibility
A. *Planning*	
• Direct the process of planning	• Management
• Provide input to long range goals and strategy	• Management
• Approve long range goals and strategy	• Board
• Formulate annual objectives/plans	• Management
• Approve annual objectives/plans	• Board
• Prepare performance reports on achievement of goals and strategy	• Management
• Monitor achievement of goals and strategy	• Joint
B. *Financial management*	
• Prepare preliminary budget	• Management
• Finalise and approve budget	• Board
• Monitor that expenditure is within budget during the year	• Management
• Approve expenditures outside authorised budget	• Board
• Prepare financial statements	• Management
• Approve financial statements	• Board
• Draft financial management policies and procedures	• Management
• Approve financial management policies and procedures	• Board
• Sign-off on funding arrangements with the government	• Management
• Ensure annual audit of NGO accounts	• Board

Function	Major Responsibility
C. *Operational programming*	
• Assess stakeholders' needs	• Management
• Oversee evaluation of products, services and programmes	• Board
• Prepare and maintain programme reports	• Management
• Solicit contributions in fundraising campaigns	• Joint
• Organise fund raising campaigns	• Management
• Manage the delivery of programmes/services	• Management
D. *Staffing*	
• Employ the CEO	• Board
• Hire and discharge staff	• Management
• Direct the work of staff	• Management
• Decision to add staff (if outside approved budget)	• Board
• Manage discord among staff and between staff and management	• Management
E. *Board management*	
• Appoint Board members	• Board
• Promote attendance at Board/committee meetings	• Board
• Plan agenda for Board meetings	• Joint
• Take minutes at Board meetings	• Management
• Determine committee structure	• Board
• Sign legal documents/contracts	• Board / Management
• Follow-up to ensure implementation of Board and committee meetings	• Management
• Appoint committee members	• Board
• Settle conflicts between members	• Board
F. *Community relations*	
• Interpret NGO to the community	• Joint
• Prepare marketing materials/news stories	• Management
• Provide linkages with other organisations	• Joint

Is The Board Ready For Its Strategic Role?

1.   The following checklist can be used to assess the readiness of a NGO Board to engage in strategic planning.   Its primary utility is to plan for training and technical assistance that can help overcome the obstacles noted.   The absence of any of these factors is not in and of itself a total impediment to the Board fulfilling its strategic leadership role – but it will make the task harder.

Checklist of questions

2.   There is a willingness to work towards developing the best fit between the NGO and its external environment by examining the following questions –

     (a) What do we wish to achieve? (vision)

     (b) What are we here to do and where are we going? (mission)

     (c) How do we get there? (strategies)

     (d) What is our blueprint for action? (service and resources plans/annual operating plans)

     (e) How do we know if we are on the right track? (monitoring and evaluation)

3.   There is a high likelihood that consensus can be reached on the following issues:

     (a) Who are we?

     (b) What are the basic social and political needs we exist to fill?

     (c) What do we do to recognize or anticipate and respond to these needs?

     (d) Who are our key stakeholders and how should we respond to them?

     (e) What are our philosophies and core values?

     (f) What makes us distinctive or unique?

4.   There is an absence of impending doom and crisis.

5.   There is deeply held commitment on the part of top leadership to engage in strategic planning.

6.   There is a shared understanding about the nature of strategic planning among organisational stakeholders.

7.   There is a competent group of people willing and able to serve on the strategic planning team.

8.   There is ability within the NGO to respond to problems with solutions that are politically, ethically, technically, and culturally acceptable.

9.   There is agreement on the planning process/model to be used.

10.   There is consensus regarding the organisational mandate given to the planning team.

11.   There are adequate resources (including facilitators from either within or outside the NGO) so that the planning team can do each of the following tasks –

      (a) Clarify organisational mission and values;

      (b) Identify clients/stakeholders;

      (c) Assess the external environment;

      (d) Assess the internal environment;

      (e) Identify the strategic issues it faces;

      (f) Formulate strategies to manage these issues (options generation);

      (g) Establish an effective organisational vision for the future;

      (h) Convert the vision into activity plans, budgets, and key result areas that can be monitored;

      (i) Monitor performance "actuals" versus "expectations";

      (j) Make adjustments to the plan.

12.   There is access to data which reflect the political, economic, social and technological trends that affect the NGO's clients, customers, and collaborators.

13.   There is access to data that reflect the NGO's current resources and performance level.

The Audit Committee's Role In Good Governance

1.   The Audit Committee's primary responsibility is to report whether the NGO is in compliance with the laws, rules, regulations and contracts that govern it. It also reviews whether the management, information and control systems are organised and implemented to carry out the rules and regulations, as well as being responsible for supervising external financial reporting. Without an independent and effective Audit Committee, it is hard for Board members to assure themselves that they are appropriately informed to support their decision making.

2.   Audit Committee exists to provide a link between the Board and auditor, and is independent of the NGO's management which is responsible for the accounting system (including the preparation of accounts) that are the subject of the external auditor's scrutiny. The primary purpose of the Audit Committee is to assist the Board in the proper discharge of its responsibilities with regard to the validity of financial statements.

3.   There is no fixed membership of an Audit Committee. Ideally, it will be relatively small – three to five members. Audit Committee should be comprised primarily of Board members, who are not management of the NGO. If necessary, the skills of the Board can be supplemented through co-opting non-members onto this committee, particularly if the Board does not have a Board member with accounting or financial expertise. The involvement of the NGO's management in the committee is generally in the form for the manager with responsibility for the NGO's finances.

4.   To be effective, the Audit Committee must have real power. Its members should have the right to obtain information from all levels of the NGO's management and to consult directly with the external auditors. If necessary, the Board should support their right to seek independent professional advice.

5.   The following provides a list of useful questions the Audit Committee, its equivalent structure or the Board, can ask of the management of the NGO or the external auditors to assure themselves that the financial management of the NGO is in sound shape.

(a) Do we have an appropriate corporate governance statement? Does it include details of the main corporate governance practices in place? Is the Board satisfied as to the appropriateness of its contents?

(b) How are we satisfied that our accounting policies are appropriate and are adequately disclosed in the financial statements?

(c) Is the Board adequately informed of its reporting and accountability responsibilities arising from subvention by the Social Welfare Department?

(d) What are the major government regulations which have an impact on the NGO? Who is responsible for monitoring compliance with these regulations?

(e) What steps have been taken to ensure compliance with relevant ordinances and regulations?

(f) What are the explanations for major budget variances?

(g) Is programme reporting providing us with sufficient information to assess the impact and effectiveness of services and strategies?

(h) How are the NGO's business risks identified and assessed? What is the ongoing programme of risk assessment and monitoring?

(i) How do the internal controls protect NGO's assets and provide reasonable assurance that fraudulent financial reporting will be prevented or subject to early detection?

(j) How are internal controls documented by the NGO? Who is responsible for ongoing review of the internal controls?

(k) What is the policy in place concerning any illegal acts?

(l) Have the external auditors noted any conflict of interest that could affect the control consciousness of staff? How was this assessed?

(m) When are the internal audit reports prepared? Are they issued on a timely basis? Are they understandable? Are they in sufficient detail to permit effective management and Audit Committee action?

(n) What are the external auditor's views on the effectiveness of the NGO's internal audit or other control and review procedures?

(o) What areas of the NGO's operations does the external auditor think should be given special attention by the Audit Committee?

Human Resource Policies And Procedures

The following is a sample list of human resource policies that a Board may have to consider. It is not definitive and what is required depends upon the NGO.

1. **Recruitment and termination**
   - Advertising
   - Interviewing procedures
   - Referee checks
   - Offers of employment
   - Retrenchment
   - Dismissal – actions triggering and procedures

2. **Compensation**
   - Salary ranges
   - Increments (and review)
   - Salary review
   - Re-grading/promotion
   - Overtime
   - Withholding salary increase (performance or leave of absence)

3. **Benefits**
   - Eligibility and other information
   - Types of available benefits
   - Provident fund
   - Long service leave

4. **Work schedule**
   - Work day hours
   - Breaks (lunch or others)
   - Holidays (vacation and public)
   - Sick leave
   - Personal leave
   - Typhoon/severe weather leave

5. **Staff performance appraisal**
   - Who is covered
   - Performance assessment cycle and process
   - Performance assessment appeals
   - Discipline procedures

6. **Occupational health and safety**
   - When there is an injury or accident on the job
   - What is covered through workers compensation
   - Medical expenses arising from a work related injury
   - Return to work procedures (for staff whose injuries require extensive leave)

7. **Payroll & time keeping procedures**
   - Payroll information – general
   - Payroll – direct deposit procedures
   - Payroll – required & voluntary payroll deductions
   - Timekeeping

8. **Personnel records**
   - Policy
   - Procedures
   - Security
   - Access by individuals
   - Internal and external releases
   - Destruction of records

Self Evaluation By The Board

(A) Collective performance

1. *Managing the Board*

   (a) Are Board members trained/inducted appropriately to the Board and are their responsibilities clear to them?

   (b) Are the Board's organisation (committees and structures) and operating procedures documented?

   (c) Does the Board have a clear conflict of interest policy that is managed rigorously by all Board members?   Is acceptance of this acknowledged in writing by all Board members and management staff?

   (d) Does the Board have a process for handling urgent issues between meetings and is there a mechanism for reporting back to the Board on actions taken at the next full meeting?

   (e) Does the Board have an annual calendar of meetings and reporting/accountability requirements that must be adhered to?

   (f) Are Board materials provided sufficiently in advance for members to give the matters appropriate consideration?

   (g) Does the Board regularly monitor its compliance with ordinances and regulations?

2. *Strategic leadership*

   (a) Do Board meetings provide sufficient time for critical strategic matters and focus on important areas of organisational control?

   (b) Does the Board carry out appropriate planning for strategy setting and review?

   (c) Does the Board regularly review progress towards strategic goals?

3. *Financial management*

   (a) Does the Board formally discuss and approve all budgets, financial statements and related financial reports?

(b) Does the Board receive regular reports on finances, budget, programme/service performance and other important matters relating to delivery of services by the NGO?

(c) Does the Board monitor its compliance with the requirements of funders?

(d) Does the Board have an Audit Committee – or a process by which regular audit and compliance matters are monitored and discussed?

4. *People leadership*

(a) Has the Board defined clearly its role and that of the CEO, with the Board focused on policy and oversight, and the CEO delegated as the manager of the NGO operations?

(b) Does a formal record of delegation exist and is this monitored?

(c) Has the Board clearly articulated to the CEO its expectations of the latter's performance?

(d) Does the Board regularly evaluate and provide feedback on the performance of the CEO?

(e) Has the Board delegated appropriate authority to the CEO for him or her to carry out the management of staff appropriately?

(f) Does the Board approve and monitor human resource management policies?

(B) Individual self-evaluation

Questions which individual Board members might consider about their performance include the following:

(a) Am I fully committed to the mission and strategies of this NGO?

(b) Am I prepared to put the time in to fulfil my responsibilities?

(c) Do I ensure that I attend all Board meetings fully informed and prepared to participate in discussion and decision making? Do I seek additional information when I feel that Board papers are insufficient?

(d) Do I contribute constructively to Board discussions?

(e) Am I prepared to raise and pursue any concerns I have with the Board's corporate governance or the management of the NGO?

(f) Is my behaviour at Board meetings consistently disruptive, negative or ill prepared?

(g) Do I participate effectively in additional Board activities (sub-committees, planning, and promotion)?

(h) Do I guard against conflict of interest – on my own part and on the part of my colleagues on the Board?