

The Board- Management Relationship

Governance Roles and Responsibilities

An understanding of the difference between governance and management rests on the cornerstone of fiduciary responsibility. Just as corporate boards are accountable to shareholders, the governing body of a not-for-profit organization has a fiduciary responsibility to see that the organization is acting in the best interests of the public, and more specifically the “stakeholders” who are served by the organization’s mission. For the not-for-profit organisation, the highest-order stakeholders are the clients and the community.

Today’s boards carry out five primary roles as independent fiduciaries (see Figure 1): choosing the CEO, approving major policies, making major decisions, overseeing performance, and serving as external advocates. Not-for-Profit boards focus their attention on the organization’s mission and strategic direction, finances and investments, quality, community benefit, and corporate compliance with laws and regulations.

The role of management, led by the CEO, is to operate the organization in line with the board’s direction. Management makes operational decisions and policies, keeps the board educated and informed, and brings to the board well-documented recommendations and information to support its policy-making, decision making and oversight responsibilities.

What is governance?

Governance refers to the processes and structures used to direct and manage an organization’s operations and activities. It defines the division of power and establishes mechanisms to achieve accountability among stakeholders, the board of directors and management. Good governance systems are designed to help organizations focus on the activities that contribute most to their overall objectives, use their resources effectively, and ensure that they are managed in the best interests of their stakeholders.

Figure1:

Board’s Roles	Management’s Roles
Select, evaluate, and support the CEO.	<ul style="list-style-type: none">— Run the organization in line with board direction.— Keep the board educated and informed.— Seek the board’s counsel.
Approve high-level organizational goals and policies.	<ul style="list-style-type: none">— Recommend goals and policies, supported by background information.
Make major decisions.	<ul style="list-style-type: none">— Frame decisions in the context of the mission and strategic vision, and bring the board well-documented recommendations.
Oversee management and organizational performance.	<ul style="list-style-type: none">— Bring the board timely information in concise, contextual, or comparative formats.— Communicate with candor and transparency.— Be responsive to requests for additional information.
Act as external advocates and diplomats in public policy, fundraising, and stakeholder/ community relations.	<ul style="list-style-type: none">— Keep the board informed, bring recommendations, and mobilize directors to leverage their external connections to support the organization.

The responsibilities of a CEO include:

- Creating, communicating, and implementing the organization's vision, mission, and overall direction. Leading the development and implementation of the overall organization's strategy.
- Leading, guiding, directing, and evaluating the work of other executive leaders including presidents, vice presidents, and directors, depending on the organization's reporting structure.
- Soliciting advice and guidance, when appropriate, from a Board of Directors.
- Formulating and implementing the strategic plan that guides the direction of the business or organization.
- Overseeing the complete operation of an organization in accordance with the direction established in the strategic plans.
- Evaluating the success of the organization.
- Maintaining awareness of both the external and internal competitive landscape, opportunities for expansion, customers, markets, new industry developments and standards, and so forth.
- Representing the organization for civic and professional association responsibilities and activities in the local community, the state, and at the national level. (Other executive leaders bear responsibility for these ventures as interested or assigned as well.)
- Demonstrating the leadership necessary to make the organization's mission a success. This leadership includes providing leadership vision, leadership that attracts followers, and all other aspects of successful leadership.

Responsibilities of the Board

The board bears the ultimate responsibility for the NPO. The board carries out this responsibility through a stewardship role. The board delegates the day-to-day management of the NPO to the CEO and management team. To fulfill its stewardship role, the board has responsibility for:

1. Overseeing the development and implementation of the strategic, financial and operating plans.
2. Overseeing the development by management of a process to identify, manage and monitor the principal risks faced by the NPO.
3. Requiring management to implement and maintain appropriate internal controls and management information systems.
4. Appointing a chief executive officer and other officers of the NPO, defining management's duties and limits of authority, overseeing management's performance and approving its compensation.
5. Overseeing management succession and management development plans.
6. Requiring management to maintain an effective stakeholder communication program, including a process by which stakeholders and other interested parties may communicate directly with the board or with individual board members.
7. Overseeing and approving the NPO's annual report and its distribution to internal and external stakeholders.
8. Appointing an audit committee comprised of three board members who are independent of management and have financial expertise to be responsible, on the board's behalf, for the oversight of the NPO's independent auditors.
9. Appointing other committees that the board considers necessary to enable it to carry out its responsibilities effectively, and to delegate to those committees any of the powers of the board it deems appropriate.
10. Adopting, amending or repealing by-laws of the NPO and monitoring the NPO's compliance with those by-laws and with its statutory and fiduciary obligations.
11. Adopting or amending the NPO's code of ethics and monitoring the NPO's compliance with that code.
12. Other decisions that are required to be made by the board of directors, or as may be reserved by the board of directors, to be made by itself and are not otherwise delegated to a committee of the board of directors or to management.