

# Governance & Disclosure Practices

Learning Series for Voluntary Organisations, Vol.-II, Issue - III, 2013-14

## Managing Human Resources and Stakeholders of an NPO



A joint initiative of Credibility Alliance & Oxfam India



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Improving Governance Building Trust

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## Managing Human Resources and Stakeholders of an NPO

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\* The Advisory support members have contributed to the document, however, the entire content is not necessarily the opinion of the advisory group.



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# Managing Human Resources & Stakeholders of an NPO

## Accountability to Multiple Stakeholders

**1.1.1** All NPOs are accountable to various stakeholders in various degrees. A stakeholder is an entity or a person(s) who is directly or indirectly affected by the activities of an NPO. One may also become a stakeholder through exclusion that is getting a fair opportunity of being selected. A inconclusive list of various stakeholders is as under:

- a) Beneficiaries
- b) Community (Targeted Population)
- c) Community (Target Population)
- d) Society
- e) Donors
- f) Management & Staff Members
- g) General Members
- h) Network & Alliance Partners
- i) Local Government
- j) Statutory Bodies (Income Tax, FCRA, Registrar of Societies, etc.)
- k) Advisors/Consultants
- l) Auditors

**1.1.2** Each of the above stakeholders holds a different position and perspective from the other. For instance the beneficiaries or the targeted population may be a marginalised stakeholder, but the larger target population from which the beneficiaries were selected also happens to be an indirect stakeholder. It is

important to understand the matrix of targeted population and the beneficiaries because each one's interest and stakes differ from others. For instance, in a State where there are, say, 5000 Dalit villages and an NPO is working in 100 of such villages. Further, around 20% population of these 100 villages are direct beneficiaries of the NPO. In the above instance, 5000 Dalit villages are the target population, 100 villages are the targeted population and 20% of these 100 villages are the direct beneficiaries. The role and interest of these stakeholders would vary from each other.

- 1.1.3** At times satisfying the needs of one stakeholder may lead to the detriment of the other. For instance, if the organisation aggressively goes for providing staff welfare measures then the administrative component will go up and consequently reduce the funds available for programmes. Similarly a large corpus may be a good from a sustainability and security angle but large corpus reduces the availability of funds for immediate activities. Therefore, the accountability aspect is also multi-dimensional.
- 1.1.4** In a world where the resources available are very scarce as a result whenever various resources are used for any particular purpose there is always an opportunity lost, where the same resources could have been used otherwise. Therefore, in the process of NPO governance, each decision will have varying effect on the various stakeholders. NPOs have to ensure that not only their decision are satisfying the canon of “*maximum social advantage*” but they also have the mandate of all the affected stakeholders. The governance and decision making systems should be fair to all stakeholders and have the participation of all stakeholders.
- 1.1.5** However, from a legal and contractual perspective the **primary stakeholders** are the direct beneficiaries, donors and the government authorities. The volunteers, the local people, network and alliance partners, advisors, consultants, auditors, etc., can be considered as **secondary stakeholders**. The **tertiary stakeholders** could be the society at large, or the group of people who may be subjected to the long indirect impact of the project activity.

## Human Resources associated with NPO

- 1.2.1** Human resources are the most important assets or factor in the existence and sustenance of an NPO. However, more often than not the human resources are ignored and deprived of the importance and the attention they deserve.
- 1.2.2** Our legal and financial statements also do not reflect the wealth of human resources an organisation possesses. This is a big limitation of our financial and

other reporting statements. However, one may argue that human resources are invaluable and they should not be quantified in financial terms.

- 1.2.3** Quantifications apart, a sound governance structure should design and ensure a balanced distribution of power, authority and responsibility in the various types of human resources engaged in an organisation. In this issue we shall discuss in brief the various types of human resources and the governance issues thereof.

## Types of Human Resources

- 1.3.1** In this issue we have discuss 6 broad categories of stakeholders which the NPO should nurture and leverage its human resources which are integral to the existence of an NPO. They are :

- ◆ The General Members
- ◆ The Board or the Trustees
- ◆ The CEO & Management Team
- ◆ The staff and volunteers
- ◆ The auditors, advisors, evaluators etc.
- ◆ The beneficiaries

- 1.3.2** All the above categories of human resources are integrally related with the regular functioning of an NPO. It may be noted that the human resources discussed above have been considered distinct from their capacity as a stakeholder. Stakeholders may also include the donors, government, community at large etc. Some of the stakeholders do not engage at individual and personal level in the functioning of an organisation. **Therefore, the stakeholders who engage or are related at individual and personal level in the functioning of an organisation are considered as vital human resources.**

- 1.3.3** A sound governance structure should empower all the human resources involved in the functioning of the organisation. In the following paras the various kinds of stakeholders and the ways of their involvement and participation, in the governance process, has been discussed.

## General Body and its Importance

- 1.4.1** General Body is the ultimate body which it regulates and controls through the Board. A General Body is like the people of a democratic country who can

determine or replace the parliament, but cannot assume the functions of the parliament. General Body constitutes and reconstitutes the Board and keeps control over certain statutory issues and key functions of the Board. Major legislative and statutory decisions are taken by the General Body, however, all key issues are normally recommended by the Board for the approval of the General Body.

**1.4.2** Important and statutory nature decisions are taken at the General Body level. Some of such decisions could be as under :

- (i) Annual General Meeting
- (ii) Appointment of Auditor
- (iii) Election of Office Bearers
- (iv) Amendment of bye-laws
- (v) Purchase of large properties, etc.
- (vi) Approval of Annual Secretaries Report.
- (vii) Such other decision as may be provided in the Memorandum of Association

**1.4.3** The general members play a very effective role in the governance of an organisation. A large and empowered General Body can only ensure that the organisation functions on democratic principles. Many organisations have a very small General Body or even a co-terminus committee i.e. both the Board and the General Body comprise same set of persons. Such organisations do not reflect sound democratic structure of governance.

## Empowering the General Members in the Governance Process

**1.5.1** The NPOs registered, under the Societies Registration Act or under the Companies Act or any other law which require both the General Body and the Board, should ensure that there is a transparent & appropriate policy regarding general members and general meetings. The general members are the true owners of an NPO. Technically, all the general members put together form the highest and the most powerful body of an NPO. However, in reality the general members may not play an effective role in the governance of an NPO, unless conscious measures are taken to empower them. The following are the few ways of creating an empowered general body :

- ◆ The size of the General Body is the most important factor which goes on to empower the general body and keeps checks and balances over the board members. The size of the general body should always be larger

than the Board, ideally 3 times or more the size of the Board. The size of the General Body is also determined by the nature of NPOs work, generally movement based NPOs have larger General Body. However normally the size of General Body should vary between 15 to 50 members.

- ◆ The General Body should be the body of general members with equal voting rights. The membership should be open to all section of stakeholders.
- ◆ The general members should have formal rights of receiving information and the right to call for special meetings.
- ◆ Apart from the statutory decision such as approval of accounts, appointment of auditors etc., the bye laws should provide for the approval of general body in various key decisions.
- ◆ The General Members should also have the right to record their dissent in a meeting.
- ◆ Very important Resolutions should be passed through special resolutions with 3/4th majority so that the minority members are also engaged.

## The Board or the Trustees

- 1.6.1** The board or the trustees happen to be the *de facto* most powerful body of NPO. In the absence of an effective Board it is very difficult to ensure good governance in any organisation. The Board is legally accountable for the legislative and executive functions. The Board is responsible for determining all the policies, systems and processes. The Board is also responsible for the safeguard and optimum utilisation of the funds, assets and resources. All decisions of enduring nature are taken at the Board level and the Board delegates authority and responsibilities to the CEO and other managerial persons. The board related matters have not been elaborated in this issue.

## The CEO & Management Team

- 1.7.1** The CEO and staff members are responsible for the day to day management of the organisation. The CEO happens to be the focal point around which the entire organisation revolves. He is the executive head of the organisation, the CEO generally does not possess legislative powers. The CEO interacts with most of the stakeholders such as donors, alliance partners, communities and also with the Board etc.



- 1.7.2** The senior management staff form a part of the management team along with the CEO. The CEO and Management staff, collectively, happen to be the ultimate executive body of the organisation which works under the oversight of the board. The balance of power and responsibility between the CEO & Management staff and the board is the most crucial aspect of the governance structure of an organisation. The CEO & Management staff should be empowered by creating specific job mandate which encourages independent decision making in specified areas.

## Difference between A CEO & General Secretary

- 1.8.1** A General Secretary of a VO is the legal representative of the Board as far as its legislative functions are concerned. The General Secretary may or may not retain the executive functions. A CEO is the highest executive position and it does not possess legislative powers. In other words a General Secretary is a democratically elected person who may also hold the charge of the executive functions. On the other hand, the CEO is a recruited staff who holds the charge of the executive functions. The General Secretary comes down from the legislative position and the CEO goes up to the board as an ex-officio. The delicate legislative and executive difference in governance as discussed should be kept in mind while designing the powers and mandate of the executive head.
- 1.8.2** The General Secretary is an integral part of the Board of a VO. A CEO may or may not be provided an ex-officio position on the Board as the representative of the employees responsible for execution and implementation.
- 1.8.3** A good governance structure should maintain a clear distinction between executive leadership and legislative leadership. The examples of such distinctions are :
- The Chairman should not be the Executive Director or CEO
  - The employees should not have an influencing impact on the Board decision making.

## The Staff & Volunteers

- 1.9.1** The staff and volunteers are the true soldiers or the flag bearers of an NPO. It is important that all the staff and volunteers are provided conducive and fair environment of work. The staff and volunteers may be empowered by :
- ♦ Having specific job description which provides space for individual action & decision making which is in commensuration with the level of work.

- ◆ Having transparent and fair selection, appraisal and promotion policies.
- ◆ Providing safe and congenial environment for working.
- ◆ Having work place policies, particularly, for female & differently abled staff.
- ◆ Having independent redressal mechanism for grievance where justice can be provided against anybody in the organisation including the CEO or the board members.
- ◆ Having fair compensation and social security measures.
- ◆ Having space for skill enhancement and capacity building.
- ◆ Having an equitable policy regarding the scales and levels of staff. There should not be marginalisation of staff working at lower scale or level.

## The Auditors, Advisors, Evaluators etc.

**1.10.1** The Auditors, Advisors and Evaluators play a very key role in the governance of an organisation. They are normally independent external persons. Sometimes functions such as internal audit, monitoring etc. are also conducted by external professionals. It is important to ensure that the appointment of such persons is independent and they are in a position to review and critique the management. Normally, the job of the Advisor, Auditors and Evaluators is to have a control on efficiency and integrity of various management processes, therefore, the appointment and reporting of such persons should be directly to the board. In case of internal audits, the management may also have a say in the appointment depending on the size of the organisation.

## The Beneficiaries

**1.11.1** The Beneficiaries are the people who are directly affected by the work of an NPO. The beneficiaries also have a direct interface with the NPO, therefore it is important to ensure that adequate empowerment of the beneficiaries is there in the process of the implementation of programmes. There could be various types of NPOs, some may have direct and apparent beneficiaries and some may have indirect beneficiaries. Wherever the NPOs work directly with the beneficiaries, it is important that they are a part of the decision making and implementation process.

- 1.11.2** Some NPOs involve village committees, CBOs (Community Based Organisations) etc. in the decision making process. Some NPOs conduct social audit involving the beneficiaries and the reference communities. NPOs may have representation from the target community in the board, advisory committees etc.
- 1.11.3** It is the responsibility of the donor organisation, also, to ensure that the implementing NPOs are giving priority to downward accountability towards the beneficiaries.

## Managing Donors

- 1.12.1** As discussed earlier donors are one of the most important stakeholder of any NPO, they provide the financial resources necessary to sustain the institution and the programmes. Therefore it is very important that the donors are made effective partners and are also kept satisfied in terms of their expectations. Some steps towards managing the donors could be as under :
- ◆ The contracts with the donors should be complied with in letter and spirit. Sometimes the NPOs believe that the donors require only utilisation statements. But in reality the donor contract may have many compliances apart from sending financial statements. All NPOs should periodically go through the donor contracts and ensure that all conditions are complied with.
  - ◆ All NPOs should engage and communicate with the donor on regular basis. The donor should apprise of the project as well as the major happenings of the NPO.
  - ◆ The NPOs should be honest and transparent in the execution of the donors project.
  - ◆ The NPOs should develop accountable and transparent systems in order to assure the donor of fair and effective utilisation of fund. It may develop policies for strict internal control, conflict of interest, disclosures, participative decision making etc.
  - ◆ Acknowledge the donors at appropriate places, forums, documents etc.
  - ◆ Take approval if there is a need for any deviation in the project.
  - ◆ Engage with the donor and solicit feedbacks related to the projects
  - ◆ Showcase a positive reputation about the NPO by bringing about real impacts in the lives of people.
  - ◆ Ensure that the auditing processes are done by totally independent and professionally competent persons.

- ◆ Co-operate with the donor during evaluation, visits other purposes as may be necessary.

## Important Factors in the Human Resource Management

**1.13.1** The Human Resource Management of the various types of human resources should apply the following important principles :

- ◆ The composition of people at each stage should be designed based on the size and nature of the organisation. A small organisation may not have advisors or a very large board.
- ◆ In a small organisation, one of the board members or the managing trustee may be the chief functionary. However, in a large organisation there might be a need for a proper advisory board, a well defined executive committee which is independent of the board etc.
- ◆ The loyalty and involvement of each individual at each stage needs to be assessed. The system should also enable an environment of ownership and commitment towards the organisation's work.
- ◆ The various stages such as the board level, the CEO, the senior staff etc. demand specific level of experience and expertise. An NPO should prepare a review paper on the adequacy of the experience and skills at all level, on a regular basis.
- ◆ The human resources at various levels should be recognised and compensated well.
- ◆ **Only financial compensation is not enough, it is the duty of the organisation to ensure that each and every person directly or indirectly involved with the organisation is working with a sense of dignity and as a part of the larger vision of the organisation which everybody should aspire to achieve.**
- ◆ It should be ensure that Human Resources in the shape of various marginal stakeholders such as General Body Members, Beneficiaries, Junior Staff etc. are empowered and given the due recognition and participation in the functioning of an NPO.

## Table showing Human Resource & the Tools of Empowerment

Type of Human Resource	The Tools of Empowerment
<b>The General Members</b>	<ul style="list-style-type: none"> <li>◆ The size of the general body should always be larger than the Board, ideally 3 times or more the size of the Board.</li> <li>◆ The General Body should have members with equal voting rights. The membership should be open to all stakeholders.</li> <li>◆ The general members should have formal rights of receiving information and the right to call for special meetings. They should also have the right to record their dissent in a meeting.</li> </ul>
<b>The Board or the Trustees</b>	<ul style="list-style-type: none"> <li>◆ The Board should have an oversight function with complete authority and accountability for all executive and legislative functions.</li> </ul>
<b>The CEO &amp; Management Team</b>	<ul style="list-style-type: none"> <li>◆ The CEO &amp; Management staff should be empowered by creating specific job mandate which encourages independent decision making in specified areas.</li> </ul>
<b>The staff and volunteers</b>	<ul style="list-style-type: none"> <li>◆ Having specific job description which provides space for individual action &amp; decision making which is incommensurate with the level of work.</li> <li>◆ Having transparent and fair selection, appraisal and promotion policies.</li> <li>◆ Providing safe and congenial environment of working.</li> <li>◆ Having work place policies for female and differently abled staff.</li> <li>◆ Having independent redressal mechanism for grievance where justice can be provided against anybody in the organisation including the CEO or the board members.</li> <li>◆ Having fair compensation and social security measures.</li> <li>◆ Having space for skill enhancement and capacity building.</li> </ul>

	<ul style="list-style-type: none"> <li>◆ Having an equitable policy regarding the scales and levels of staff. There should not be marginalisation of staff working at lower scale or level.</li> </ul>
<b>The auditors, advisors, evaluators etc.</b>	<ul style="list-style-type: none"> <li>◆ The appointment and reporting of such persons should be directly to the board. In case of internal audits the management may also have a say in the appointment depending on the size of the organisation.</li> </ul>
<b>The beneficiaries</b>	<ul style="list-style-type: none"> <li>◆ NPOs should involve village committees, CBOs (Community Based Organisations) etc. in the decision making process. NPOs may conduct social audit involving the beneficiaries and the reference communities.</li> <li>◆ NPOs may have representation from the target community in the board, advisory committees etc.</li> </ul>

## About Credibility Alliance

Credibility Alliance (CA) is a consortium of Voluntary Organizations committed towards enhancing Accountability and Transparency in the Voluntary Sector through good Governance. Registered in May 2004 as an independent, not-for-profit Organization, CA emerged as an initiative from within the Sector after an extensive consultative process over a period of two years involving thousands of VOs all over India. As an Organization, CA aspires to build trust among all stakeholders through improving Governance within the Voluntary Sector. As an initiative whose hallmark has been the participatory approach, CA has developed suitable Norms through wide-ranging consultation with and participation of diverse Organizations within the Sector by developing a large membership base.

With the mission 'to build credibility of the Voluntary Sector through creation and promotion of Norms of Good Governance and Public Disclosure', CA's core programme areas comprise of: Accreditation, Capacity Building, Networking and Information Dissemination.

- I. **Accreditation:** Accreditation of Voluntary Organizations refers to the certification of upholding of the quality of an organization, which adheres to the minimum norms or desirable norms set by Credibility Alliance. The main purpose of the Accreditation exercise is to develop a cost effective mechanism of periodic evaluation of VOs in the country.

'Minimum Norms' are the Norms that all VOs should follow. It is mandatory for all the Accredited Members of CA to comply with the Minimum Norms or give an undertaking that they will do so within an year, whereas 'Desirable Norms' are the next level of Norms for good Governance and public disclosure. These are the practices that are at present not mandatory and some Organizations may require time to adopt such practices.

- II. **Capacity Building:** Credibility Alliance focuses on the Capacity Building process to maximize its potential and sustain its work by adopting the existing best practices. CA plans the Capacity Building initiatives for the Voluntary Organizations by identifying and outlining the gaps in the Sector, assessing the needs and finally instituting the programs to address those needs.
- III. **Networking:** Credibility Alliance facilitates interaction between experts in different areas and promotes the sharing of ideas and information between the Voluntary Organizations and the experts. CA helps VOs to seek issue-based information in the Sector that they are working in, which helps in building the professional capacities of VOs through training, thereby enabling them to increase institutional capacities.
- IV. **Information Dissemination:** Credibility Alliance sensitizes, spreads awareness, assists, educates and appraises on the recent developments, responsibilities and other critical issues pertaining to Voluntary Sector by disseminating vital information periodically to all VOs.



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