BRIEFING NOTE
UNDERSTANDING GOVERNANCE MODELS

One major problem for people who serve on boards is understanding the term 'governance', and without adequate induction and an appreciation of the various governance codes, the challenge is to ensure boards govern rather than manage their organisations. Most boards find it easier to undertake fiduciary[1] responsibilities rather than strategic[2] and generative[3] responsibility, and whilst ensuring legal and regulatory compliance is critical, boards that spend all of their time focusing on compliance and not also on strategic development, are not performing adequately.

Research shows that adopting and adhering to a clear basis for how a board operates (a model of governance) can lead to improving good governance practice. There are many different models available and it is important that a board adopts its own model that enhances the values of the organisation. Using one of the following models, or choosing some principles from each model and implementing a bespoke approach, can help an organisation be governed well, and ensure that there is less confusion between the role of the board and that of the executive:

The Relationship Model™

Traditional governance models (including the Policy Governance model (see below)) arguably shift the natural balance of human relationship and collegiality toward an artificial structure based on hierarchy, power and control, in contrast. In response, the Relationship Model suggests that effective governance is a result of a continuous process of interaction between individuals, whether that is the Chief Executive and board members or internally amongst the board. The natural division of labour between board and staff and the sharing of organizational oversight are all part of a relationship-building process. Additionally, the model recognizes the characteristics of a modern and continuously growing complex society caused by social, technological and scientific developments, and recognizes natural interdependencies. No single person has the ability to dominate unilaterally in this relationship-based governance model, although the Chief Executive may have a great deal of personal influence.

A significant aspect of the Relationship Model is the role of organizational values in establishing governance controls. As board members and the Chief Executive are able to identify and share organizational values, they develop congruent images about the vision and direction of the organization. While image theory can help explain how such shared values can become internalized, the important point is that internalized sets of values provide the basis for unwritten rules, or in other words, natural enforcement and controls of behaviour: Each individual shares responsibility for creating, owning, understanding and implementing the mission of the organisation, with authority, responsibility and accountability as the primary components of all relationships (limitations of authority and expectations of responsibility are secondary components).

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[1] In which the board exercises its legal responsibilities of oversight and stewardship.
[2] In which the board makes major decisions about resources, programmes, and services.
[3] In which the board engages in deeper inquiry, exploring root causes, values, optional courses and new ideas.

Whilst the premise of the Relationship model admirably emphasises the relevance and importance of dynamics, people are people and research[4] demonstrates that relationship problems are prevalent, pervasive and persistent in board governance regardless of either the organizational structures or the alignment of various governance and management functions among directors and chief executives. To rely solely on the goodwill, energy and personal commitment of individuals to govern collaboratively, without hierarchy (and therefore power and control), exposes an organisation to significant risk.

The Policy Governance Model

This model is intended to help a board focus on ensuring the goals of what the organisation wants to achieve (the "ends") are met; it is not about the "means" of doing them. Many organisations have historically concentrated on the methods and activities, rather than the ends. As a minimum, this model states that "the purpose of governance is to ensure, usually on behalf of others, that an organisation achieves what it should achieve while avoiding those behaviours and situations that should be avoided."

According to this model, the Board represents the "moral owners" (e.g. shareholders, members, donors, beneficiaries, etc) of the organisation and corporately are the "servant leaders" of behalf of the owners. There is an emphasis on outcomes ("ends") but also on executive limitations, i.e. constraints within which the Chief Executive is required to deliver those results, ensuring what the organisation does is both ethical and prudent (although beyond that, the responsibility lies with the Chief Executive).

Whilst this model offers absolute clarity on the distinction between governance and management, the model is prescriptive and requires the Board to be well trained in order to make the model work. Further, it places significantly more responsibility on the shoulders of the Chief Executive, creating excessively powerful positions whilst, conversely removing the Chief Executive from the strategic development process.

The Governance as Leadership Model

The Governance as Leadership model redefines non-profit governance and it provides a powerful framework for a new way of working between trustees and executive staff: more macro-governance in exchange for less micro-management. The model outlines three modes of governance which Boards should use. Each mode serves important purposes, and together, the three add up to governance as leadership:

- **Fiduciary:** in this mode, the Board's central purpose is the stewardship of tangible assets and its principle role is to guard these. It oversees operations and ensures efficient and appropriate use of resources, legal compliance and fiscal accountability. The fiduciary role requires the least amount of knowledge by the Board about the organisation and its mission. But organisations often have boards that focus almost exclusively on fiduciary concerns.

- **Strategic:** in this mode, the Board's central purpose is to ensure a winning strategy for the organisation, and its principal role is to be a strategic partner to senior management. Its core work includes setting priorities, reviewing and modifying strategic plans, and monitoring performance against plans.

- **Generative:** in this mode, the Board's central purpose is to be a source of leadership for the organisation, and its principal role is as a "sense maker." The board "decides what to decide";

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[4] www.innovation.cc/scholarly-style/21_1_3_bruni-bossio_story_role-performance.pdf

discerns challenges and opportunities; and probes assumptions, logic and the values behind strategies. Generative thinking is a cognitive process for deciding what to pay attention to, what it means, and what to do about it.
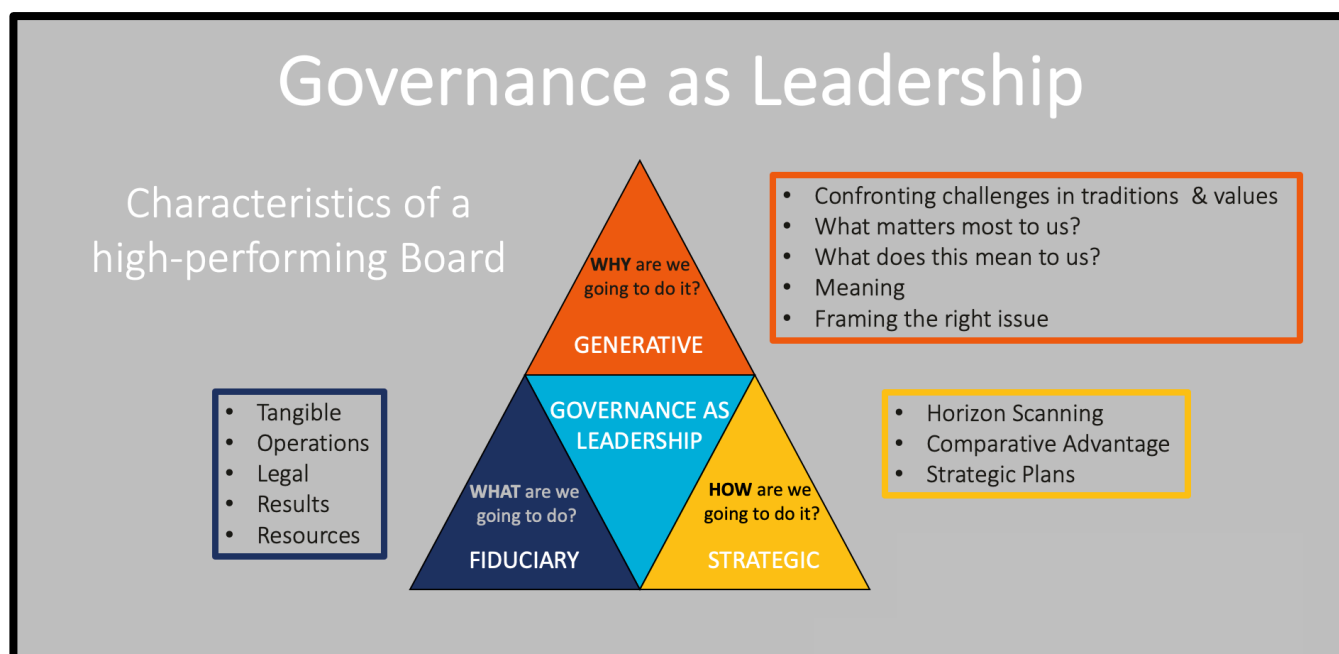
In practice, these three modes of governance can look as follows:

	Fiduciary	Strategic	Generative
Key question	What's wrong?	What's the plan?	What's the question?
Problems are to be…	Spotted	Solved	Framed
Decision-making	Reach resolution	Reach consensus	Reach understanding
Board sees their role as…	Oversight and authority	Strategist	Fresh perspective
Performance metrics	Facts, figures, finances	Strategic indicators, competitive analysis	Signs of learning and discernment

The three modes vis-à-vis an organisation's annual audit would like something like:

- Fiduciary: "Did we get a clean audit?" or "What can we learn from the audit?"
- Strategic: "Does the audit pinpoint any issues that are strategic in nature?"
- Generative: "Does the audit hint at any emerging shifts or developments that could significantly challenge of business model or financial condition long term?"

NETpositive Governance™ Model

Within the context of wanting to engage organisations with some of the many global issues affecting society in the 21st century, we have developed a new governance model - NETpositive Governance™ - designed to support Boards in enhancing their leadership roles and addressing their organisations' social responsibilities.

How do we understand 'net positive'?

The principle of 'net positive' was born out of the sustainability movement and developed by Jimmy Brannigan of *NETpositive Futures* (www.netpositivefutures.co.uk) who conceived of and wrote the first net positive strategy in 2011 for Becker Underwood Inc (https://tinyurl.com/yxp2z8mm): the net

positive concept recognised that for too long sustainability strategies and commitments were focused on environmental issues and predominantly on the reduction of negative impacts. A net positive commitment simply recognises that as well as reducing negative environmental impacts, we should pay more attention to enhancing the positive impacts and value of our individual and collective activities; environmentally, socially and economically. The aim being to achieve an overall position that is NETpositive.

This is a subtle but important change in the philosophical approach to understanding how we impact our environments, society and the economy: in the 21st century, the need to reduce and minimise our negative impacts is simply a given; and thus engaging people in the process of *enhancing* society by adding value through direct (and indirect) contributions becomes an inherently more positive approach to dealing with our impacts. We want to challenge boards of directors to consider how they and their organisations can enhance their communities by adding value through a more nuanced approach to governance and leadership.

At the heart of the *NETpositive Governance™* model are the founding principles of good mechanics and dynamics, i.e. the practical framework of polices, systems and processes, coupled with positive engagement, human interactions and a culture of constructive conflict and productive decision-making. Once the mechanics and dynamics are established, understood and accepted, a Board is then able to ensure clarity around its *modus operandi* at fiduciary, strategic and transformative levels:

Values & Leadership: is there a foundation of strong ethics, clearly defined values and a commitment to doing the 'right' things well? How is the organisation committed to enhancing social value and impact?

Roles & Responsibilities: does every member of the Board understand the drivers for social responsibility and the role they can play in realising social value?

Diversity & Effectiveness: does the Board consist of individuals with the appropriate balance of NETpositive expertise, i.e. complex problem solving, critical thinking and innovation, creativity and adaptability, negotiation and influencing, and emotional intelligence?

Culture & Relationships: has the Board established the positive values and relationships necessary for it govern effectively? Is there a culture of constructive conflict? Does the Board use the language of NETpositive and articulate the organisation's impacts?

Transparency & Accountability: does the Board have confidence of all stakeholders by ensuring its decision-making is transparent and that accountability is recognised as an opportunity rather than a burden? Does the Annual Report contain an analysis of long-term challenges, sector trends, market developments, and the social value and impact of the organisation? Has the
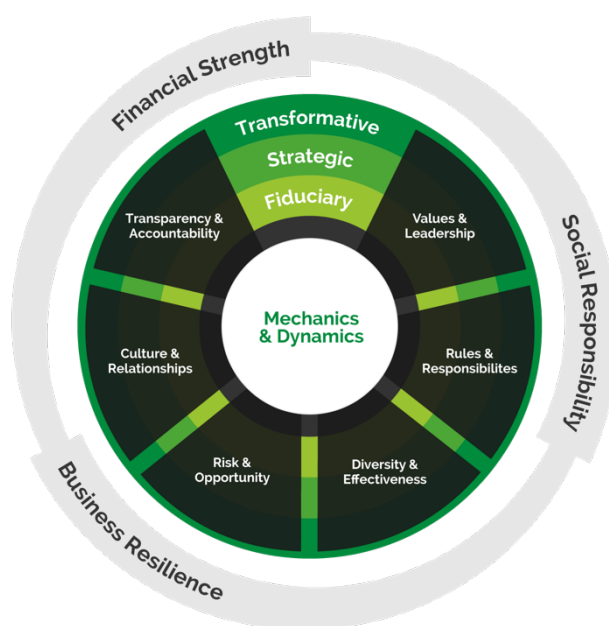
Board agreed KPIs which focus on the value of the organisation brings to society as well as how the organisation can reduce environmental impact of the organisation and the wider sector?

Risk & Opportunity: are risks being effectively managed and opportunities appropriately maximised? Are risks and opportunities articulated in a sustainability or social value strategy? Has the Board received training relating to sustainability and social value?

It is the innate ability to recognise and manage both risks and opportunities that represents the step-change from good governance to NETpositive Governance™: whilst an effective Board manages risk, a NETpositive Board seeks to not only mitigate risk but counterbalance negative impacts by realising positive social value, i.e. by discussing and agreeing at a strategic level not just how to manage risk but how to capitalise on opportunities that enhance both financial strength and business resilience whilst also addressing environmental responsibilities and adding value to the organisation's community and/or wider society.

The success of the NETpositive Governance™ model is reinforced through its cyclical nature, whereby virtue of enhanced financial strength and improved business resilience an organisation can continue to reinvest in its performance and therefore continue to capitalise on opportunities that address wider environmental and social responsibilities. A NETpositive Board should be able to continually realise and articulate the positive impacts that its organisation has on the environment, the value it adds to society, and the contribution it makes to the economy. This is particularly true of socially-focused organisations, such as charities, membership bodies, and other third sector organisations who, through the very nature of their purpose, often inherently deliver social value but do not realise or use the language of net positive and therefore are not recognised or given credit for the value they add to society or for the positive impact they have on the environment and/or economy.

The significant environmental, social and economic challenges that face society in 2020 are of an unprecedented global scale but socially focused organisations can and must contribute to the required solutions. NETpositive Governance™ is not a complex concept but we propose that any Board that makes a strategic commitment to managing its business effectively by focussing on enhanced social value and via the actions articulated in the NETpositive Governance™ model will not only protect its organisation in challenging times but support the ongoing endeavour to respond to those challenges.

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