



Public Governance Guidance Note

Doing 'public good': where to start?

The focus of the Public Governance Interest Group (PGIG) is on the governance of non-governmental organisations (NGOs). The topic of NGO governance is wide, including high-level issues such as the obligations of those in control of the NGO; technical issues such as which structures to adopt when establishing an NGO and how to call meetings, prepare reports and accounts; as well as the regulations and best practice procedures relating to NGOs.

In this first Guidance Note, the PGIG gives an introduction to NGO governance, and, more importantly, how it differs from the corporate governance of commercial enterprises. It also looks at the obligations of those at the helm and the need to address a broad range of stakeholder concerns.

Public governance

An authoritative source for the definition of corporate governance can be found in the *OECD Principles of Corporate Governance*, which were recently revised as the *G20/OECD Principles of Corporate Governance* (2015).¹ The Principles offer the following definition:

'Corporate governance involves a set of relationships between a company's management, its board, its shareholders and other stakeholders. Corporate governance also provides the structure through which the objectives of the company are set, and the means of attaining those objectives and monitoring performance are determined.'

There is, however, no authoritative definition of corporate governance specifically for NGOs. The G20/OECD Principles can provide guidance on the commercial aspects of NGO governance, but we have to look elsewhere for guidance on the public governance aspects. In this connection, a study by the International Federation

of Accountants, *Study 13 – Governance in the Public Sector*, (2001)² states that:

'... public sector entities have to satisfy a complex range of... economic and social objectives, which subject them to a different set of external constraints. They are also subject to forms of accountability to various stakeholders, which are different to those that a company in the private sector has to its shareholders, customers etc.'

The study also points out that stakeholders have legitimate interests in public sector entities without necessarily having any ownership rights.

Combining the business and public governance sides of NGOs, it is clear that NGOs must:

- have systems, principles and processes in place to ensure checks and balances on those in control
- be aware of the complex socio-economic environment they operate in
- add value to their stakeholders, and
- deliver 'public good'.

The personal qualities required of directors

The Nolan Committee in its *The Seven Principles of Public Life* (1995)³, sets out the personal qualities required for those in public office. These principles could be used in relation to decision makers of NGOs. These are:

- selflessness
- integrity
- objectivity
- accountability – including for the use and stewardship of public funds and assets
- openness
- honesty, and
- leadership.

1 www.oecd.org/daf/ca/Corporate-Governance-Principles-ENG.pdf

2 <https://www.ifac.org/publications-resources/study-13-governance-public-sector>

3 <https://www.gov.uk/government/publications/the-7-principles-of-public-life/the-7-principles-of-public-life--2>

In the course of further guidance, these aspects will serve as anchors and will be further discussed. For the moment, it is sufficient to understand that there is need for considering these personal qualities when acting as part of the board and management of an NGO.

Stakeholders' expectations

The stakeholders of an NGO tend to be a wider community than those for commercial enterprises. These stakeholders require:

- the delivery of services
- proper use of funds
- defensible selection criteria, and
- no evasion of responsibility.


Conclusion

This preliminary PGIG Guidance Note provides an introduction to a highly important topic. NGOs provide a wide range of services

for the public good. We have touched on the matters summarised below, which need to be developed further in future guidance.

The board and management of NGOs, at a personal level, must at least have the following qualities: selflessness, integrity, objectivity, accountability, openness, honesty and leadership.

To implement NGO governance, the directors and management must implement the requisite systems, principles and processes. These will, as set out in further guidance, include the need for transparency and accountability, appropriate strategy, some sort of benchmarks, compliance along with financial controls and risk management.

We conclude that NGO governance is no easy manner, and for those volunteering, their solace is doing 'public good' even when the going gets difficult. 

Case Study

To give context to the matters discussed, let's consider a case study.

You are the company secretary of a company. Your director wants to become involved in an NGO. He comes to you as you have impressed him that you seem to know a thing or two about governance. He wants to know the differences between the governance of a business and that of an NGO. Also, he wants to know what is it that he needs to watch out for in terms of the big picture.

You would probably start by explaining to him that the governance of an NGO obviously has commercial aspects, such as investing surplus donations, but at the same time NGOs have a wider responsibility for the 'public good'. Anyone taking up a directorship in an NGO needs to understand that stakeholders' concerns are much wider than those for a commercial enterprise, which is bottom line driven.

For example, if he is joining an NGO that deals with gifted young musicians, the 'public good' that he is serving will probably be to develop future talents among Hong Kong's budding musicians. This goal will probably be specifically stated in the NGO's constitutional documents. Your director's foremost

consideration must therefore be to develop musical talent in Hong Kong.

However, the stakeholders involved will not only comprise budding musicians. They may, for example, also include the parents of those musicians and anyone in the public who takes an interest in the development of Hong Kong's musical talent. These could include school principals, teachers, etc. This means that your director will probably need to liaise with all these stakeholders, and to listen to them also. All this means that your director needs to exercise not just his business judgement skills, but also his diplomatic skills, which could lead to a further level of complication.

For example, where a child is not selected for a musical programme the child's parent, who is a stakeholder, may resort to pleading or complaining to try to get the child into the programme. The parent may even go to the press and make all sorts of allegations. Yet, because your director will have a duty to the 'public good', he and his NGO must act without fear or favour in trying to make the right decisions for the NGO. He should be emboldened by the fact that he is doing 'public good' in scouting for talent for Hong Kong from the next generation of budding musicians.

Implicit in all this is that the resources of an NGO are limited and cannot please every stakeholder. At times, the implications of this may be complex and could well be frustrating. For example, if your director is involved in a charity that deals with refugees, being limited in the help the NGO can offer due to the scarcity of funding could be frustrating and demoralising.

Your director should also be reminded about potential conflicts of interest. For example, if the parent in the case study is a business partner of his, he will need to remove himself from the decision-making process. In this case, it may well be that, out of caution, the other decision makers would then reject the application to avoid any arguments that they are acting in collusion with your director. Nevertheless, your director should always discharge his roles and responsibilities to the NGO with a view to serving the 'public good'.

From the above, your director needs to accept that at times being involved in an NGO can be a thankless task and can lead to conflict with stakeholders who do not get their way. But at the same time, it can be intellectually rewarding and satisfying, particularly in terms of doing 'public good'. In fact, there can be great meaning and satisfaction in giving back to society.

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