Seven Pillars of Democratic Governance

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Published by Charity Channel & Canadian FundRaiser May 2009

Abstract: What is Governance?

Most discussions about governance assume that everyone involved has the same notion of just what 'governance' means. In fact, there may be substantial differences in understanding of what it does mean. So the best starting point in any discussion is a common definition, to ensure that everyone is 'on the same page'. The definition offered here is based on an extensive review of governance literature and validation through my research, teaching and consulting experience.

Governance, is defined here as *the dynamic interaction between people, structures, processes and traditions that support the exercise of legitimate authority in provision of sound leadership, direction, oversight, and control of an entity in order to ensure that its purpose is achieved, and that there is proper accounting for the (ethical) conduct of its affairs, the (efficient) use of its resources, and the results of its activities.*

The definition of governance and the seven pillars of democratic governance offered here draw from common themes that emerge from governance documents of major organizations such as the OECD, World Bank, Southeast Asian Development Bank, United Nations Development Agency, Commonwealth Association of Corporate Governance, and the Canadian Institute of Chartered Accountants.

Seven Pillars of Democratic Governance

Seven generally accepted, interrelated pillars of democratic, and consequentially 'good', governance follow:

1. ***Legitimacy*:** is grounded in constitutional documents and incorporation instruments, 'rule of law', respect for traditions, and credibility with key stake/shareholders who 'freely' consent to the authority of the governing body. The Canadian Bill of Rights (1960) affirms "men and institutions remain free only when freedom is founded upon respect for moral and spiritual values and the rule of Law". The American Declaration of Independence (1776) captures another essential component of this concept with the following words: "governments … derive their just powers from the consent of the governed".

2. ***Participation* (or engagement):** is the involvement of electors, shareholders, members and other key stakeholders in planning, decision processes and evaluation. This allows a governing body to obtain reliable information, serves as a reality check and watchdog, spurs operational efficiency, and provides feedback by users of public services necessary for monitoring access to, and quality of, services. And it clearly defines the lines of accountability.

3. ***Responsible stewardship*:** is faithful exercise of the duties of due care, diligence, and loyalty in the efficient use of financial and human resources allocated to the purposes for which they were entrusted.

4. ***Ethical conduct*****:** includes respect, honesty, openness, integrity, trustworthiness and fairness in all interactions; commitment to the spirit as well as the letter of laws, rules, regulations, norms and traditions; service to the benefit of primary beneficiaries above service to self…and leadership by example.

5. ***Transparency*****:** requires timely access by electors, shareholders, members and other key stakeholders to low-cost, relevant, reliable information about finances, products or services, management of resources, and decision-processes. Transparent procedures in organizations may include open meetings, accurate disclosure of financial and other critical performance indicators, compliance with freedom of information legislation and ready accessibility of annual reports and audited financial statements.

6. ***Predictability*****:** refers to the conduct or actions of elected officials/board members and appointed staff. Predictability results primarily from laws, regulations and role definitions that are clear, and known in advance; are fair; and uniformly and effectively enforced. It is essential to stakeholder confidence and public trust that stewardship and fiduciary responsibilities will be properly exercised, that business will be conducted ethically and that projected results are realistic. Predictability encompasses the notion of 'promise keeping' captured in the familiar words of Canadian poet Robert Service: "A promise made is a debt unpaid."

7. ***Accountability***: is the capacity of electors, shareholders and organizational members to call decision-makers to account for their actions. Effective accountability has two components: 'answerability' and 'consequences'. The first is the requirement to respond periodically to questions concerning one's official actions. The second is the need for the acknowledgement of achievements or shortcomings…rewards for achievements, and the application of deterrent sanctions for breach of rules or serious deficiencies in performance.

How Do We 'Stack up' against these Principles in North America?

1. ***Legitimacy*****:** National, provincial/state and local legislative bodies as well as governing bodies of many public institutions (e.g. education) and nonprofits (particularly those with a broad membership base) are elected. Directors of many other public institutions are appointed by the legislative bodies and are thus accountable through them to the electorate.

   However, flaws in electoral procedures such as occurred in Florida during the 2000 U.S. Presidential election can leave lingering questions about the legitimacy of a particular election (who can forget the 'hanging chads'?). Nevertheless, the rule of law prevailed in the ultimate decision of the U.S. Supreme Court.) One could go on to dissect the dynamics of the Court, but that's beyond the scope of this article. One could also draw a contrast with the Pakistani President's removal in 2007 of jurists in Pakistan's high court in anticipation that its pronouncements on that country's presidential elections would not be favorable to him.

Legitimacy can be threatened when a candidate is elected under the banner of one political party and then 'crosses the floor' to sit as a member of cabinet in an opposing party, as occurred in the Canadian Parliamentary election in 2006. Legitimacy may also be called into question when, as in the case of the recent appointment of a replacement to the U.S. Senate for the outgoing Senator/President-elect, the appointment was made by the discredited former Governor of Illinois.

2. ***Participation* (or engagement):** Although the 'crossing the floor' example noted in the previous paragraph is not a breach of the traditions of the Westminster Parliamentary system upon which the Canadian system is founded, the fact that it occurred within just a few days after the election was broadly perceived as undermining this principle through breach of trust with the electorate and undermined his legitimacy in office. Irregularities in registration or electoral procedure that disenfranchise certain voters also breach this principle. They tend to occur with greater frequency in the U.S. than in Canada.

3. ***Responsible stewardship*:** Directors of the Smithsonian Institute in Washington, D.C. recently came under fire, in a highly publicized recent case of board abdication of its stewardship responsibilities. An independent report concluded that numerous principles of responsible stewardship were violated during the tenure of its former top executive, including overcompensating him and allowing him to create an "imperialistic and insular culture".

   This continues a long tradition of similar, though thankfully not frequent, lapses in board oversight that dates back to the early nineties with similar board defaults at the United Way of America, the American and Canadian Red Crosses, Canada's National Arts Centre, the International Olympic Committee and, more recently the Toronto Zoo, being among the most broadly publicized.

   Excessive board trust and reliance on charismatic CEOs (rubberstamping), failure to exercise objective oversight of services independent of management, and failure to 'follow the money' or establish effective financial controls (particularly on expense accounts) are the themes that run through these defaults and numerous others in all sectors of the economy.

4. ***Ethical conduct***: The 2007 Report on the 'Transparency International Global Corruption Barometer' measures corruption against public experience and perceptions with bribery. North America fares best among the seven regions of the globe. Canada fares somewhat better than the United States. NGOs and religious institutions are rated least corrupt, while political parties, legislative bodies and police, in that order, are rated most corrupt. However, the line between

'criminal' bribery and institutionalized lobbying and 'influence peddling' may be rather blurry, particularly when these practices involve huge sums of money.

Politicians and political parties that depend upon large campaign donors are almost inevitably comprised to some degree in their capacity to objectively fulfill their duty to act in the best interests of the whole. 'Who pays the piper calls the tune'. Surely the relationship between such donors/special interests and political leaders contributed to the lack of regulatory oversight of financial institutions that led to the continuing global financial crisis.

This makes reform of campaign financing to prevent such corrupting influences even more critical. Canada certainly has a lead over the U.S. in this regard, although not everyone is committed to public financing. The current Canadian government's attempt in late 2008 to abandon it nearly resulted in a constitutional crisis for this country.

5. ***Transparency*:**

Nonprofit and public sector organizations, many with open meetings, web posting of key documents (strategic plans, governance policies, annual reports and sometimes even board minutes) employ high standards of transparency. Public sector organizations are typically subject to 'freedom of information' legislation. Nonprofits are usually more transparent than public companies or private corporations.

However there are increasing attempts to prescribe disclosure requirements in the U.S (Sarbanes-Oxley). Canada's approach encourages voluntary participation in good governance practices with a 'principles-based' approach by publicly listed corporations, although Securities Exchange regulations mandate certain minimal standards. In addition, shareholders' rights groups such as the Canadian Coalition for Good Governance are pushing corporations in the direction of greater transparency and 'say on executive pay'.

6. ***Predictability*:**

We all know the dismal record of politicians with respect to 'promise keeping'. North American politicians typically campaign from the 'left or right' and govern from the center. Once in office they suddenly gain new insights that make policy promises less feasible. Little wonder they are held in such low esteem.

Just as important to this principle is compliance with laws, regulations, bylaws and policies. It is also critical that roles and expectations for board and staff alike are explicitly defined, that those roles are fulfilled diligently and with due care, and that rules are fair, and uniformly and effectively enforced. In my experience, a substantial minority (about 40%) of nonprofits engages in practices that are inconsistent with bylaws and/or policies (when they actually have established such policies and role descriptions) and that bylaws and policies are often inconsistent with each other. Predictability is quickly eroded under such circumstances.

7. ***Accountability***:

   Elected members of governing bodies are regularly required to 'face the voters' in periodic elections. This gives the electors an opportunity to express their opinion on the performance of the elected officials…either rewarding them with reelection or punishing them with defeat. Some provinces (e.g. British Columbia) and states (e.g. California) also have recall provisions to remove elected officials. However, the bar is set high for the number of voter signatures required to force a recall vote.

   The directors of nonprofit organizations also account to their members through periodic elections where there is a membership base broader than the board of directors itself. While there are usually bylaw provisions that allow for the removal of directors, the actual application of such negative sanctions is rare. The exceptions are more likely to occur when a director's attendance record falls short of a minimum standard. Sanctions seldom occur as a result of a performance deficiency. The nature of relationships between volunteer board members often makes it easier to just allow the term of the offending director to expire…one argument for term limits.

   Nonprofits also account for their performance through annual general meetings, annual reports, audited financial statements, periodic communications with members, open meetings, and publication of key governance documents.

   Publicly traded companies and private corporations are held to account by regulatory requirements for disclosure and the harsh vicissitudes of the market.

Concluding Comments

North Americans can be confident that their public institutions warrant a higher degree of trust than those in many other parts of the globe. Nonprofit organizations contribute between 5.7% and 9% of GDP in our respective countries. They employ millions of workers and huge numbers of volunteers, including those on volunteer boards of directors. The nonprofit sector in North America is among the best developed and sophisticated in the world. It is vibrant, committed and generally produces a higher return on dollars invested than any other sector of the economy. Yet it is not free from falling short on fulfilling the promise of the principles enunciated here. There is always room for improvement. And no sector shows greater promise of rising to that challenge.

Note: Portions of this article have been excerpted from the author's book: Governing for Results: A Director's Guide to Good Governance, Trafford Publishing, 2005

