

The Functions of Governance



Over the last decade or two, governance has been an emerging area of interest, growing in importance and the focus of increasing legislative interest.

The objectives of governance were defined in 2002 by Sir Adrian Cadbury and in 2004 by the OECD. The objective of ‘good governance’ adapted from the definition by Sir Adrian Cadbury (2002) is generally accepted as: “.....

holding the balance between economic and social goals and between individual and communal goals. The governance framework is there to encourage the efficient use of resources and equally to require accountability for the stewardship of those resources. The aim is to align as nearly as possible the interests of individuals, the organisation and society”.

The necessary principles and practices needed to implement governance have also been thought through and defined, probably the most comprehensive being the Australian Institute of Company Directors ‘Corporate Governance Framework’¹.

What’s missing is a clear description of the ‘functions of governance’ similar to the widely accepted ‘functions of management’ developed by Henri Fayol (1841 – 1925). Fayol defined the five functions of management in his 1916 book *Administration Industrielle et Generale*, as:

- M1 To forecast and plan,
- M2 To organise
- M3 To command or direct (lead)
- M4 To coordinate
- M5 To control (French: contrôler: in the sense that a manager must receive feedback about a process in order to make necessary adjustments and must analyse the deviations.).

Management undertakes these functions through management structures and committees such as project control boards. A more detailed discussion of the functions and principles of management is contained in our White Paper: **WP1094 The Functions of Management**² Given these functions of management are still generally accepted more than 100 years after their publication; they cannot also be the functions of governance (assuming governance and management are different).

The Six Functions of Governance

Governance is the action of governing an organisation by using and regulating influence to direct and control the actions and affairs of management and others³. It is the exclusive responsibility of the ‘governing body’,

¹ For more on the AICD ‘Company Directors, the Corporate Governance Framework ‘ see: <http://www.companydirectors.com.au/Director-Resource-Centre/Publications/Company-Director-magazine/A-framework-for-good-director-practice>

² See **WP1094 The Functions of Management**: https://www.mosaicprojects.com.au/WhitePapers/WP1094_Defining_Management.pdf

³ For more on the **definition of governance** see: <https://mosaicprojects.wordpress.com/2014/04/21/defining-governance-what-the-words-mean/>



the person, or group accountable for the performance and conformance of the organisation (in a commercial organisation, the Board of Directors)⁴.

The functions of governance were originally defined in Dr. Lynda Bourne's article *The Six Functions of Governance*⁵. They are:

- **G1 - Determining the objectives of the organisation** expressed through its vision and mission statements and implemented through its strategic plan. The objectives define the purpose of the organisation, and describe how the purpose will be fulfilled. The strategic plan is a key interface between management and the governing body:
 - The governing body determines the organisation's objectives;
 - There is shared responsibility to develop an effective strategy to achieve the objectives;
 - Management is responsible for implementing the strategy through the efficient and effective use of the organisation's limited resources⁶.

- **G2 - Determining the ethics of the organisation;** defining what values, morals and attitudes matter in the creation and evolution of the organisation - values rarely change. How much importance is genuinely given to factors such as sustainability, corporate social responsibility, customer satisfaction and stakeholder engagement over profits and short-term movements in the share prices. Ethics are based on morals and values and define the rules or standards governing the conduct of people within the organisation. They answer key questions about the organisation such as: 'what do we stand for?', 'what do we not want to lose?', and 'what do we want to be?'. The organisation's values should be an integral part of assessing every potential employee's suitability to join the organisation and where people fail to live up to the values require appropriate actions to help the person change or exit the organisation.

The ethical standards of any organisation are set by the behaviours of people at the top and cascade down the hierarchy⁷. Some core values underpinning the organisation's ethics both internally and externally may include:

- **Integrity**, steadfastly applying high moral principles.
- **Honesty**, being truthful and open.
- **Competence**, ensuring our advice, opinion and decisions are based on experience and facts.
- **Conformance**, to all relevant legal, regulatory and other standards deemed necessary or important by the wider society within which the organisation operates. Conformance should go beyond merely complying with the 'letter of the law' to embrace the spirit of the documents and aspirations of the wider society.
- **Benevolence**, treating all with respect and kindness.
- **Sustainability**, protecting the wider environmental and social spheres within which the organisation operates (ESG⁸).

⁴ For more on **corporate governance** see: https://www.mosaicprojects.com.au/WhitePapers/WP1033_Governance.pdf

⁵ Bourne, L. **The Six Functions of Governance**. PM World Journal Vol. III, Issue XI – November 2014.

<https://pmworldlibrary.net/>

Download from: https://www.mosaicprojects.com.au/PDF_Papers/P188_Six_Functions_of_Governance.pdf

⁶ The efficient use of resources includes avoiding over commitment through the use of prioritised decision making and selection processes such as project portfolio management to achieve the optimum overall outcome for the organisation.

⁷ For more on the **ethical foundations of policy** see:

<https://mosaicprojects.wordpress.com/2014/09/20/the-moral-underpinnings-of-good-policy/>

⁸ For more on **ESG** see:

<https://mosaicprojects.wordpress.com/2014/10/29/stakeholders-generate-profits-for-shareholders/>



- **Stewardship**⁹, protecting resources under your control for the future.
- **G3 - Creating the culture of the organisation:** this is a more subtle process and deals with the way people interact with each other. Culture is the environment in which work gets done, and is embedded in the people working for the organisation, it naturally evolves as a company grows or changes and requires continuous nurturing and management. The governing body decides on the culture it wants and influences the operating culture of the organisation through the people it appoints to executive positions. The most important function of a governing body is appointing the organisation's executive management team, and the guidelines they impose on the executive defining how they will in turn select and appoint other levels of management and the organisation's staff, contractors and suppliers. Culture is created by people.

*Governmentality*¹⁰, the willingness of people to 'be governed' and to support the governance system is at the centre of an effective culture. Other aspects include: how supportive the organisation is, how innovative, how risk seeking/averse, how open and transparent, how mature and professional, and how tolerant is it. It is impossible to have innovation as a key objective, which requires sensible risk taking if the organisation's culture is intolerant of failure. Some important aspects of a constructive culture include:

- Leadership
 - Openness and transparency
 - Fairness
 - Enterprise and attitudes to sensible risk taking
 - Commitment both to the organisations and its values
 - Confidence
 - Respect
 - Accountability and responsibility
- **G4 - Designing and implementing the governance framework for the organisation.** The governing body is accountable for the performance of the organisation, and retains overall responsibility for the organisation it governs; however, in most organisations the governing body cannot undertake all of the work of governance itself. To ensure the efficient governance of the organisation various responsibilities need to be delegated to people within the organisations management¹¹. The governance framework defines the principles, structures, enabling factors and

⁹ **Stewardship** is an important governance concept. It includes:

- **Faith:** A propensity to view the assets and resources at one's command as trust for future generations rather than available for selfish exploitation.
- **Charity:** A willingness to put the interests of others ahead of ones own.
- **Prudence:** A commitment to safeguard the future even as one takes advantage of the present.
- **Responsibility:** The obligation to undertake actions to protect and make proper use of the assets and resources being governed.
- **Accountability:** Accepting responsibility for the systemic consequences of one's actions and decisions.
- **Equity:** A desire to see that rewards are distributed fairly, based on contribution rather than power.

¹⁰ See R. Müller, S.Pemsel, J.Shao. *Organisational enablers for project governance and governmentality in project-based organisations*. International Journal of Project Management (Pre press).
<http://dx.doi.org/10.1016/j.ijproman.2014.07.008>

¹¹ The governance and management structures needed to effectively govern and manage projects and programs is discussed in **The management of project management: A conceptual framework for project governance**, see: https://www.mosaicprojects.com.au/PDF_Papers/P162_The_Management_of_Project_Management_IJPM.pdf



interfaces through which the organisation's governance arrangements will operate by delegating appropriate levels of authority and responsibility to managers and other entities.

- **G5 - Ensuring accountability by management:**
 - For the ethical and cultural environment, they develop and maintain within the organisation.
 - For the stewardship and proper use of the resources entrusted to their care.
 - For the accomplishment of the strategic plan and fulfilment of the organisation's objectives.
- **G6 - Ensuring compliance by the organisation:** providing relevant stakeholders with assurance of the organisation's compliance with its regulatory, statutory and legal obligations, as well as monitoring and directing the performance of its management and staff as they work towards achieving the organisation's objectives, working within the organisation's ethical and cultural framework and supporting the values established by the governing body.

To implement the functions outlined above¹², the governing body (in order of development) has to:

- Understand the *concepts* of good governance - concepts are abstract ideas framed in general terms;
- Determine the *objectives* of both the organisation and its governance;
- Determine the respective *functions* of both the governance and management systems¹³;
- Establish the *principles* of governance to be used, these are the fundamental propositions that define the way system of governance will operate, and acceptable behaviours for the organisation;
- Document the *policies* that are to be used to implement the principles;
- Work with management to establish appropriate *procedures, processes* and *practices* to be used by the organisation;
- Oversight the specific *methods* and *tools* (methodologies) used by management and other people within the organisation to achieve its objectives¹⁴.
- Implement *accountability* (usually various forms of reporting and meetings with management), and *assurance functions* (usually various forms of internal and external audit¹⁵) that provide the governing body with the necessary degree of confidence that the organisation's management and workforce (including external suppliers and contractors) are in full compliance with the governance system described above. The governing body needs the skills and structure such as properly resourced 'board sub-committees' to be able to receive, and understand the significance of, the various management and audit reports and to validate the effectiveness of its management, and its auditors and the audit processes.

¹² These 'functions of governance' are very similar to, and support the independently developed *Carver Policy Governance® Model*, see: <http://www.carvergovernance.com/model.htm>

¹³ For more on *management and governance systems* see: https://www.mosaicprojects.com.au/WhitePapers/WP1084_Governance_Systems.pdf

¹⁴ The definitions of these terms are discussed in *Governance processes and terminology*, see: <https://mosaicprojects.wordpress.com/2015/10/24/governance-processes-and-terminology/>

¹⁵ **Audits** take many forms and require different types of expertise to be effective. Some of the more important include:

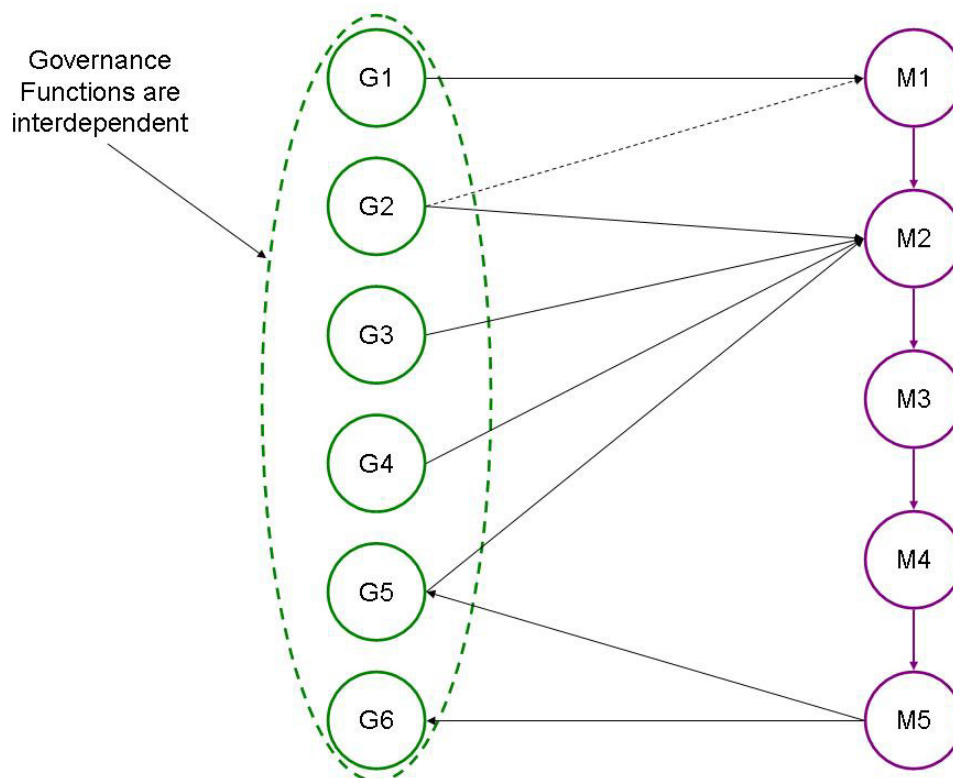
- Financial and taxation audits (both legally mandated and internal compliance audits);
- Safety, risk, Intellectual Property (IP), and security audits (cyber security is an emerging area of significance);
- Various supplier and supply chain audits (usually focused on compliance with legislation outlawing practices such as *'the bribery of foreign officials'*, *'the use of child labour'*, and *'modern slavery'* – even if these practices do not place the organisation in breach of the law in its home territory, they create reputational risks);
- Quality audits of all types (both internal and focused on the supply chain);
- Cultural audits (demonstrating a robust ethical culture is becoming increasingly important, this type of audit starts by considering the *'tone at the top'* and focuses on the *'soft controls'* that drive behaviour throughout the organisation.



In a well governed organisation, the key driver for its objectives will be a clearly enunciated ‘customer value proposition’¹⁶. By focusing on the needs of the stakeholders the organisation exists to serve¹⁷, its strategic objectives can be refined and from this base management effort focused on activities that directly contribute to fulfilling the organisation’s purpose, and feedback provided to the governing body on how this is being achieved.

Mapping the functions of governance and management:

The governing body appoints, provides direction to and oversees the functioning of the organisation’s management and makes the ‘rules’ the organisation’s management and staff are expected to conform to. Management’s job is to achieve the objectives of the organisation; working within its ethical and cultural framework, whilst complying with the ‘rules’ and providing assurance back to the governing body that this is being accomplished. The mapping of the relationship between Fayol’s functions of management and the functions of governance are set out below:



Management functions are assumed to be hierarchal with the governance inputs cascading down to lower level functions.

¹⁶ Peter Drucker: “the purpose of a business is to create a customer”. The purpose of any organisation is to create value for the stakeholders it exists to serve.

¹⁷ Understanding what is valuable to your stakeholders / customers is complex and involves more than simple financial considerations. However, if the stakeholders do not feel the organisation contributes or creates value for them, they will go elsewhere (and without customers there is no long-term possibility of the organization remaining viable). For more on perceptions of value see: https://www.mosaicprojects.com.au/Mag_Articles/SA1038_Who_Values_Value.pdf



	Governance Functions		Management Functions
G1	To determine the objectives of the organisation	M1	To forecast and plan
G2	To determine the ethics of the organisation	M2	To organise
G3	To create the culture of the organisation	M3	To command or direct (lead)
G4	To design & implement the governance framework	M4	To coordinate
G5	To ensure accountability by management	M5	To control
G6	To ensure compliance by the organisation		

Conclusion

The governance system and the management system are symbiotic, but whilst being mutually interdependent, the two systems fulfil very different functions¹⁸. A well governed organisation is designed to allow these two systems to work together to the benefit of the organisation’s overall stakeholder community.

The amount of time and effort devoted by the ‘governing body’ to compliance and accountability can be significantly reduced if the organisation’s objectives, ethics and culture are sound.

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¹⁸ For more on **governance and management systems** see:
https://www.mosaicprojects.com.au/WhitePapers/WP1084_Governance_Systems.pdf

