

Observations and Lessons Learned From the CHF Governance Studies

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The following is a consolidation of case studies on community-based governance practices in four countries where CHF International is presently working. These case studies were done during the first half of 2003 under funding from USAID. Two types of organizations and two types of socio-economic contexts were involved in the studies. In South Africa and the Philippines, both developing countries, the organizations surveyed were cooperatives. In Romania and Poland, both post-communist states in Eastern Europe, the organizations surveyed were condominium associations.

Within the context of an organization, governance encompasses a broad range of issues ranging from policies to structures to methods of work. However, the surveys limited itself mainly to questions on leadership and board practices, decision-making, organizational management, and administration of social services. The surveys placed more emphasis on the “people who operate within these frameworks” rather than the formal structures that make up the organization or the legal environment upon which they operate. The surveys sought to identify, through structured interviews and focus group discussions, how associations or cooperatives identify and elect their leaders to position; how boards operate in relation to specific personal demands and the larger demands of the organization and its general membership; how decisions are arrived at; were there thorough consultations and formal analyses held before a decision is put into action; and, is management performed by a member of the board or by a hired professional external to the organization.

CHF believes that cooperatives or associations formed around one explicit goal, such as housing, and which lack effective leadership development programs, often do not realize their potential and the organization collapses once the initial goal is achieved. The governance studies were then conducted to look into such experiences. CHF seeks to document past practices in the said four countries to aid it in identifying and assessing key issues and dynamics relevant to effective organizational governance. It also seeks to explore and reveal the complementary relationship that exists between “perceptions” of the membership and leadership, and how this impacts on organizational and social stability.

Leadership

In the case studies, the board served as the point of departure for any assessment of leadership practices. The board is the organizational expression of the cooperative or association’s leadership. Thus, to look into the characteristics of leaders of the surveyed associations and cooperatives is to look into the characteristics of individuals constituting the board. To look into the responsibilities of leaders in these organizations

is to look into how members of the board, individually and as a collective, execute their responsibilities.

1. Responsibilities in the board demand both time and commitment. Once elected as a member of the board, one is entrusted with responsibilities that are at times referred to as “un glamorous”, “time and energy consuming,” and “without pay.” Normally, leaders are elected based on their charisma, on their vision and capability to realize that vision, or on their “wisdom and experience gained through the ages.” However, for most of our case study organizations, leaders are elected based on their dedication to commit a substantial amount of time to the organization and their enthusiasm to operate in environments that have a low level of trust, is not conducive to participation, and where financial and other resources are not readily available.

2. In an organizational climate where people generally “do not want to be involved,” the decision to become a leader or a board member and the eventual selection or election of such by members is less a result of the individual’s commitment to the organization’s goal. The phenomenon is more a result of who has more time that can be devoted to taking care of numerous organizational responsibilities aside from personal ones. Old folks volunteer to become leaders because members of their community, which incidentally is comprised also of old people, don’t trust the young like in Romania and the Philippines. The young also do not have time “to become involved” in organizational activities as they are pre-occupied with their jobs, careers, and families.

3. The physical nature of the board, most often, changes according to membership needs or size of the organization. In the Philippines, for example, it was observed that cooperatives with a big membership base and which provide multiple services are likely to have a numerically larger board than cooperatives with a few members and services. What this suggests is that as an organization grows and becomes complex and sophisticated in its operations, the composition of the board will have to adjust in order to adapt to new internal conditions. Realizing this degree of flexibility takes time as organizational growth is achieved, likewise, over a reasonable amount of time.

4. Boards, like the individuals that compose it, grow as an organization matures over time. Organizational growth occurs in phases and varies from one association to another. This development is precipitated by a number of factors which include not just organizational age but also external political environment, competencies of individual board members, and actual experiences. Across time and as experience “becomes more widespread,” leaders gain more insight on how to run their organizations and how to address their problems. They realize that serving on the board empowers them to effect changes with “real impact” upon their lives and the lives of their members. For example, in the Philippines, the evolution of multi-purpose cooperatives resulted in the evolution of a board that is capable of handling or managing a broad range of activities. In Romania, while many condominium associations remain afflicted by what is described as a state of “inertia”, a problem inherited from the period before democratization, the boards in the associations are increasingly becoming professionalized, adopting a variety of “efficient internal resource management methods” to address problems of repair and restoration in their dwellings.

5. What motivates certain individuals to become board members and what holds these leaders accountable to their members is the trust given to persons who have proven themselves worthy of such through their deeds and actions. Trust is not given to just anybody nor is it something that just happens automatically. In many cases, trust is easily given to family and friends. In South Africa, organizational cohesion at the level of the board relies heavily on the “strong network of interpersonal relationships” which, although not stated, may have been forged from mutual identification in the struggle against racial discrimination or apartheid. In Poland, the boards in the condominium associations “start with a feeling of considerable lack of trust.” Leaders eventually proved themselves trustworthy through their actions and their results.

6. Levels of trust change based on the leadership roles assumed within the cooperative or association. The degree of trust invested by members to individuals or parties comprising the board varies as a result of their unequal perceptions of their leaders based on certain qualities. For example, one leader can be more capable in constructively handling rumors than another. This makes that leader relatively more trustworthy than the other. In the Philippines case study, it was revealed that members trust the chairperson more than the manager or any other leader in the cooperative. This is a product of member perception that it is the chairperson that is “largely, if not solely” responsible for the success of the organization. Oftentimes, it is also the chairperson that is credited for having organized the association or cooperative in the first place.

7. Trust has been closely linked to positive job performance, effective communication, resolution of conflict, and active member participation. The report on Romania states that “the investment of trust in the leaders becomes a guarantee in the success of collective actions.” In any organization, if a leader is not credible, then that leader loses the respect and following of its members. The reliability of the individual elected to position is thus the reason why majority of the organizations in the surveyed countries, except South Africa, have boards that are composed mostly of old people who have retired from work or who have stayed in the community for a number of years. It is because of trust that those who have already served as board member are likely to be elected again to position, similar to what happened in the Philippines.

8. Leaders must not only build an image of personal integrity, they must also establish positive personal relationships with their members. Trust must be cultivated based both on character and on relationship. In the survey on trust conducted among eight multi-purpose cooperatives in the Philippines, members were asked to rate their leaders based not only on characteristics that measure up their ability and dependability as leaders. They were also asked to rate their leaders based on such relational factors as ability to lead by example, acceptance of suggestions and criticisms, accessibility to consultation, ability to encourage members to state their opinions regardless of difference with official positions, and frequency of visit or stay in the cooperative office.

Decision-making

Housing associations and cooperatives need leaders that have the ability to analyze context or surrounding, evaluate threats and opportunities, project scenarios and possibilities, and thereafter make the appropriate decision at the appropriate time. Some say that good governance is about making the right decisions. It is about achieving desired results and achieving them in the right way. Decision-making is considered a “determining factor in influencing organizational dynamics”.

1. Creating the right organizational climate for effective decision-making is important. This climate should encourage and facilitate participation and “transparency of ways in which decisions are made and communicated.” It was this climate that was lacking in Romania prior to 1989. The absence of such a climate promoted a culture of “disengagement” among members, citing fear of reprisals for points of view or opinions that are contrary to those of communist authorities. However, with the advent of democracy, there has been an increased level of participation of members in decision-making. There is even an increased tolerance for “diverging opinions” so long as judgement is based on “solid reason.”

2. In a climate of democracy, governance functions in creating systems that allow those who will bear the costs of decisions, the so-called stakeholders, which in associations and cooperatives ultimately refer to members, the right to vote when decisions are to be made. While organizational governance gives leaders the power and authority to make decisions in their behalf, systems must still be in place to give members their “voice” especially in matters that directly affect their lives and interests. In Poland and in the Philippines, ownership meetings or general assemblies which gather all members are held on a regular basis or at least once a year. In these meetings, members are given the power to decide on “matters considered of great importance” to their lives and organizations.

3. Governance makes it the duty of leaders, the persons who are in a position to command and wield control, to ensure quorum and member participation during meetings, especially when matters of critical importance are to be discussed and decided upon. The promotion of a favorable environment for decision-making relies on effective communication between leaders and members. Timely and reliable information that flows freely and transparently between and across different levels of the organization aids in achieving a shared understanding of when, why, and how a decision is made among all members. In most of the case study organizations, leaders directly consult members, through a variety of methods (such as ownership meetings, door-to-door meetings, solicitation letters, and bulletin boards) before a decision is made is another.

4. Member participation in ownership meetings or general assemblies needs to be improved. In the Philippines, attendance in the annual general assemblies of cooperatives is observed to be on the decline thus prompting a decrease in the quorum required for such assemblies. Quorum went down from 50% to 30-35% of the membership base since “not half of the cooperative’s total membership show up during these assemblies.” In Poland, not more than 30-40% of the condominium association’s members regularly attend general meetings. While both countries did not specify any reason for the low number of turnouts during regular meetings, it may be safe to infer

that like in South Africa, participation is constrained by problems of affordability (high cost of transportation) and economic or household-related priorities, aside from problems relating to the availability of an environment of mutual trust and respect.

5. While member participation in decision-making is given premium in the housing associations or cooperatives, however, “members cannot be gathered at all times to make a decision.” The organizations believe that the board was created so that they can “decide on matters which they deem they are capable of.” This notion is similar to the concept of “different degrees of importance” in decision-making of Romanian condominium associations. Major decisions, like building or restoring a roof, requires the approval of majority of the members of the association while a simple emergency-type of problem which no longer requires the collective wisdom of a group of people, such as a leaking pipe, is instantly decided by the president of the association.

6. Involving members in the process of decision-making is considered essential in all organizations covered in the case studies. This “openness towards group decision” is an important development in the governance practice of such organizations. First, it serves as an indicator of organizational maturity and at the same time demonstrates the development of democracy in an organization, especially for associations like those in Romania and Poland which in the past experienced state control even at the community level. Second, while group decision-making is a tedious and time consuming process, it is significantly advantageous than individual decision-making.

7. In group decision-making, a diversity of information, approaches, and perspectives are presented and cultivated, thus providing a variety of solutions to specific problems. It also helps in increasing legitimacy and acceptance to a selected course of action since it has the mandate of a substantial number of stakeholders. In most cases of group decision-making, reaching a consensus or a unanimous decision is a bit difficult since members normally have different interests, opinions and suggestions. It then becomes the task of leaders to link and harmonize conflicting interests and come up with a decision that is bounded by the principles and policies of the organization and that is broadly acceptable to all. In the Philippines, board meetings last up to the late hours of the night and are adjourned only when a consensus is reached. In Romanian condominium associations, there are some decisions that are considered of “maximum importance” and therefore a “unanimous decision is necessary.”

Management

It has been said that the function of management in organizations is different from that of leadership as exercised by the board. Leadership is related to vision while management is related to administration. Leadership is related to making policies while management is related to implementing them. These contrasting definitions however seem to make it appear that management is a concept or an exercise that is completely incongruent with governance, and worse, not even remotely related to it. This is grossly inaccurate as organizational management is an essential component of organizational governance.

1. Failure to recognize the differences between board and management responsibilities results in leaders “doing everything by themselves.” With leaders preoccupied with too much responsibility than they can normally handle, organizational performance suffers. In the case study of South African housing cooperatives, one of the major organizational gaps observed is the inability of leaders to make a “formal distinction between governance and daily management duties and responsibilities”. The situation is no different in Poland wherein “reaction to daily problems consumes most of the time and effort of the board and managers.” Thus, some strategic objectives are not met because they have to give way to other objectives which have been defined as urgent. While there is nothing absolutely wrong with responding to immediate concerns, effective governance must be able to strike a balance between managing the organization’s general goals and the day-by-day concerns that it encounters.

2. Effective governance means having the ability to clearly demarcate “functional responsibilities” of the different structures present in an association or cooperative. Delineating the roles of the board, membership, management, and the various committees is integral to operational efficiency. Leaders play an important role in defining these distinctions, in fairly allocating limited resources to the various structures that make up an organization, and in maximizing the potential of each part in order to contribute to the optimal functioning and growth of the whole organization. In most of the case study organizations, except those in South Africa, the distinction between the responsibilities of the board and of management is somehow clearly defined. In the Philippines, the board is responsible in making decisions while a general manager is hired to oversee the implementation of such decisions with the assistance of a considerably-sized staff. The general manager is also assigned to supervise daily administrative work such as accounting, scheduling, organizing, project monitoring, and delivery of services. This is no different in Romanian condominium associations where the “board retains decision-making power” and administrative functions are performed by a contracted or paid manager. The setup is also basically similar with that of Polish condominium associations wherein the board is focused primarily on securing funds for much-needed repairs and restoration while management, which exists in a variety of arrangements across different associations, is tasked with the daily administration of the apartments.

3. Management is a broad term that encompasses a variety of responsibilities. In the context of the housing associations and cooperatives, management is a dual responsibility. There is management that is directed toward the administration and maintenance of buildings or apartments and management that is directed toward the administration and maintenance of the organization itself. In Romania and Poland, management it seems is still limited toward building administration. It is for this reason why managers, or to be more precise, property managers, are professional individuals or groups that hold licenses proving their competence in this particular area of work. While these European organizations may not be different from Philippine cooperatives in the sense that their licensed managers administer a specific responsibility that indeed should be taken care of by a management team and not by the board, they are, however, in the same predicament as that of South African housing cooperatives in the sense that

they are still probably grasping the distinction between building management and organizational management.

4. As an organization develops, management practices also evolve as a result of experience. Housing associations and cooperatives change their management structures and methodologies, or adopt a variety of management arrangements in order to improve the quality of services delivered to members. In areas in Poland where gminas still have considerable control and ownership, management is still provided by gmina-run management companies such as the ADKs. In Romania, some associations hire the management services provided by the federation of condominium associations. However, in both countries, there is now an increasing preference to appoint a manager or administrator that is a member of their own community. Hiring the services of external professional managers or management companies is no longer a preferred option in many associations since members now place more trust on individuals that belong to their group. In many cases, this individual is chosen from among members of the board.

Conclusion

In the book *Managing for Change*, Ian Smillie and John Hailey improved upon Mike Hudson's concept of the life cycle of boards to describe the development of leaders from among Asian NGOs. They introduced three phases in the life cycle of boards: (1) the founding phase, wherein a visionary and charismatic leader is able to gather supporters, mostly friends, to become members of the board and endorse his or her ideals; (2) the youthful phase, wherein the board becomes more particular to details such as objectives, committee systems, and budget; and, (3) the adulthood phase, wherein the board begins to adopt a more hands-off approach to the organization and rarely challenges accepted policies and procedures.¹

This concept on the life cycle of boards can be useful in characterizing the boards of the surveyed organizations in the case studies and in correlating the age of these organizations with the capability of their boards. One must however proceed with caution in applying this to the organizations covered in the case studies. First, the identification of board growth coordinates may seem quite arbitrary in the absence of an evaluation tool by which to scientifically measure where exactly along this chronographic continuum the boards belong. Second, one can never definitively ascertain the nature of boards based simply on how old an organization is.

Based on the case study reports, it may be safe to say that the organizations from Poland, Romania, and South Africa exhibit characteristics that somehow place them in a transitory stage between the founding and youthful phases, while some of the cooperatives from the Philippines exhibit characteristics similar to those that may have reached the adulthood phase.

¹ Ian Smillie and John Hailey, *Managing for Change: Leadership, Strategy and Management in Asian NGOs*, (London: Earthscan Publications Ltd., 2001), 117-118.

Many of the Romanian condominium associations were established after 1977. The present leaders remain beset by problems inherited from the period before democratization. In the past, these associations experienced too many “political interventions” that severely damaged the capacity of leaders to develop trust among members. Thus, even with the disappearance of virtual police control in the condominium associations after 1989, leaders had a hard time dealing with members who are still “ambivalent” about involving themselves in common projects or activities. Despite such problems, the boards in the associations are fast becoming professionalized and sophisticated in their operations.

While Polish condominium associations are younger than those in Romania, having been established only after 1994, they have exhibited an almost similar path of development. Over time, notwithstanding the “lack of knowledge and understanding of condominium structures”, leaders have gained more insight on how to improve the quality of services that their associations provide. The boards in the associations have also adopted several management arrangements depending, among others, on the ownership ratio between *gmina* and individual households.

South African housing cooperatives are about as old as the condominium associations in Poland. These were established by municipal housing officials and housing-related NGOs in 1994. The boards in these organizations exhibit a “good commitment to cooperative housing” but their understanding of this housing concept is described as “simplistic.” They lack sufficient capability to govern and manage cooperatives appropriately. They also lack basic skills in fund raising and financial management. However, these “basic” organizational gaps did not prevent them from moving forward with their housing projects and in accessing government subsidy, land, and other resources for housing.

The housing organizations in these three countries differ a bit significantly from those in the Philippines. The Philippine cooperative sector, which has been in existence since the start of 20th century, has grown tremendously from the single-purpose, savings-and-credit type, to the multi-purpose type offering a diversity of services. Multi-purpose cooperatives, like those included in the case studies, are complex organizations since they are an amalgam of the different types of business enterprises engaged in by single-purpose cooperatives such as housing, banking, microfinance, insurance, health, commodity marketing, education, and agriculture.

The housing associations and cooperatives in the four case studies exist at different levels due to various reasons arising from the historical development in their respective countries. For now, cooperatives in South Africa are described as “elementary organizations which do not show the complexities of developed organizations” and the condominium associations in Romania and Poland are emergent “schools of learning of the rules of democratic governance.” Eventually the organizations in these countries will grow in leaps and bounds to a point that they will equal, if not surpass, the level of development reached by the Philippine cooperative sector.

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