



# **Governance Principles for Business Associations and Chambers of Commerce**

The Center for International Private Enterprise (CIPE) strengthens democracy around the globe through private enterprise and market-oriented reform. CIPE is one of the four core institutes of the National Endowment for Democracy and an affiliate of the U.S. Chamber of Commerce. Since 1983, CIPE has worked with business associations and chambers of commerce, building their capacity to represent the interests of their members and become effective participants in public policy dialogue.

The World Chambers Federation (WCF) was established by the International Chamber of Commerce (ICC) in 1951 to be the advocate of its chamber of commerce members worldwide. WCF is a non-political, non-governmental body representing the interests of all local, national, regional, bilateral and transnational chambers of commerce and industry.



# Preface

Good governance is essential to creating business associations that are independent and mission-driven, can grow a broad membership base, can be responsible financial stewards, provide membership services, and effectively represent their member interests in the public policy process.

Governance is generally defined as a set of policies, institutions, mechanisms, and practices by which an association is directed and controlled. Effective leadership is the central part of good governance – leadership that is representative of its membership, treats all members fairly, and acts in the best interests of the organization. Putting democratic mechanisms into place for leadership selection, ensuring transparent and responsible decision-making procedures, and separating governance and management functions within associations are the key elements of good governance.

The Center for International Private Enterprise (CIPE) and the World Chambers Federation (WCF) developed these principles in order to facilitate good governance within business associations. These principles provide a starting platform for developing and strengthening specific mechanisms related to good governance. Recognizing the uniqueness of each country, the differences between organizational structures, and the various business environments, these principles don't attempt to provide a list of prescriptions that associations must follow. Instead, the principles aim at capturing a broad set of good governance guidelines, which business associations in different countries can use to evaluate their existing practices and initiate improvements they deem necessary. We recognize that the principles alone do not create effective good governance structures within associations; real change requires concrete tools and mechanisms and consistent enforcement and implementation.

We view these principles as applicable to business associations, chambers of commerce, and federations of associations operating on the international, national, regional, and local levels. For the purpose of these principles, we define business associations, chambers of commerce, and federations of associations as trade bodies that represent the collective interest of their business members, whether individual entrepreneurs, companies, or organizations. We recognize that trade bodies can take

various forms, operate under different legal and regulatory mandates, and that various membership models are in existence around the world – mandatory, voluntary, and mixed.<sup>1</sup> These principles do not distinguish between different membership models and provide guidelines for establishing effective organizations that are representative of their membership regardless of the membership structure.

<sup>1</sup> For more on various membership models of business organizations see Markus Pilgrim and Ralph Meier, “National Chambers of Commerce: A Primer on the Organization and Role of Chamber Systems,” published by the Center for International Private Enterprise (1995) [http://www.cipe.org/programs/ba/pdf/Chamber\\_Primer.pdf](http://www.cipe.org/programs/ba/pdf/Chamber_Primer.pdf)

# Acknowledgements

Recognizing the importance of corporate governance in creating transparent and sustainable companies as well as economies, we used the OECD Principles of Corporate Governance as the basis for these principles. As business associations are private sector representative organizations, they should subscribe to the highest set of principles that are consistent with those considered best practice in the private sector. Using the OECD Principles as the model, we built a general framework that focuses on members of associations and their rights and responsibilities, roles and responsibilities of board members, and disclosure and transparency provisions. At the same time, a number of factors specific to the nature of business associations make these principles different – mainly that business associations are non-profit, member-based organizations; their governance structures are composed of dues-paying members; and board members do not typically receive financial compensation.

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District Chamber of Commerce, Lloydminster Chamber of Commerce, London Chamber of Commerce and Industry, Moose Jaw & District Chamber of Commerce, New Ross Chamber of Commerce Incorporated, NSW Business Chamber, Parksville & District Chamber of Commerce, Porirua Chamber of Commerce, Quinte West Chamber of Commerce, Regional Chamber of Commerce and Industry Krusevac, Regional Chamber of Commerce Novi Sad, River Valley Chamber of Commerce, Rotorua Chamber of Commerce, Sarnia Lambton Chamber of Commerce, Spruce Grove & District Chamber of Commerce, Squamish Chamber of Commerce, Strathmore & District Chamber of Commerce, St. Thomas & District Chamber of Commerce, Sussex & District Chamber of Commerce, Tauranga Chamber of Commerce, Turkey Business Association.

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# Effective Governance of Business Associations

Over the past several decades, corporate governance has transitioned from being an issue of importance to large publicly-listed companies in major economies to the one that is of concern to public and private sector businesses in countries large and small. Business associations and chambers of commerce around the world are facing the same set of governance issues companies began to deal with in the corporate governance arena in the 1990s. The emerging consensus is that the concept of governance is as relevant for associations as it is for companies. Association governance mechanisms are applicable not only to large organizations in developed markets but are just as important, if not more so, for smaller associations in developing economies.

Applied to business associations, the concept of governance deals with policies, institutions, mechanisms, and practices by which an organization is directed and controlled. Good governance lies at the very heart of building dynamic, sustainable, independent, representative, and effective business associations – this is the business case for association governance. It is one of the key factors in creating business associations that can fulfill their role of strengthening their members and representing private sector interests in the public policy process at all levels of government.

There are a number of different guidelines for governance of non-profit organizations. Many of these guidelines can be applied to business associations, yet the distinct nature of business associations warrants a special approach. Business associations are membership-based organizations; their responsibility is to their dues-paying members, who also comprise the governing structures of associations.

These principles have been developed in order to provide business associations with a starting point for developing and improving their governance procedures. These principles are voluntary, yet it is important to recognize that business associations should comply with all relevant legal and regulatory requirements in their jurisdiction of operation. These principles have been developed with the input of business associations from around the world, which underscores their global relevance and applicability.

## **Governance Principles for Business Associations**

### **I. Creating independent, mission- and member-driven associations**

*The association governance framework should create independent, effective, mission-driven business associations that represent their members' interests, create value, and fulfill their broader role in society.*

- a. The association should espouse democratic principles in its governance as it relates to the selection of board members, their activities, and treatment of members.

The focus should be placed on creating transparent processes for leadership selection and decision-making. Recognizing that different membership tiers may have different rights and obligations, the association should nonetheless treat all members fairly, be transparent in its decisions and activities, and espouse equal access to information.

- b. The association governance framework should ensure that the association represents the broad interests of its membership and can be held accountable by its members.
- c. The association should be independent from external influence in governance or key management functions.
- d. Decision-makers of the association should be free from undue influence of individual members in carrying out their responsibilities.
- e. Decision-makers should be impartial in their actions, exercise duty of care, avoid conflict of interest, and act in the best interest of the association.
  1. Conflict of interest should be clearly defined in the relevant governance documents of the association.
  2. Job descriptions and the responsibilities of decision-makers should be clearly defined and properly reviewed and updated to ensure that actual practices reflect the position description.

## **Creating independent, mission- and member-driven associations**

3. Decision-makers should be guided by clearly defined objectives that are aligned with the overall organizational goals.
  - f. The structure of the board should be such that it properly represents its membership.
  - g. The association governance framework should ensure that board members and staff are responsible and held accountable for their actions and decisions. A proper management system to ensure a productive relationship between board and staff should be put into place.
  - h. Programs and activities of the association should be consistent with its mission.
  - i. The association governance framework should ensure that an association remains non-partisan.
  - j. The association governance framework should establish a sound system of risk management and internal controls.
  - k. The mission of the association should reflect the interests of all its members and should be developed by members in a democratic manner. The mission should be periodically reviewed and validated to properly reflect the organization. Members should be aware of the mission.
  - l. The association governance framework should properly reflect the strategic plan.
  - m. The association governance framework should establish guidance on circumstances under which members are allowed to use the association's name in their activities.
  - n. In developing the association's public policy positions, the association governance framework should seek to establish relevant policy committees to properly represent member interests in a democratic and fully informed manner.

## **Creating independent, mission- and member-driven associations**

- o. Decision-makers should be transparent in their decisions to establish or eliminate policy committees to ensure that such committees reflect the interests of the organization rather than those of individual members. The association governance framework should include written guidelines for dealing with policy committees and the board should ensure compliance.

The responsibility of policy committees include:

- 1. Identifying and prioritizing current and emerging problems
  - 2. Developing policies and positions on issues
  - 3. Providing support on policy analysis and communication efforts
- p. The rules and process for composing committees should be clear and transparent.
  - q. The association governance framework should establish clear procedures for information flow and interaction between policy committees and the board of directors.

## II. Members as owners of the association

*The association governance framework should recognize that members are the foundation of its existence and enable them to act as informed and active owners, ensuring that governance is carried out in a transparent and accountable manner, with the necessary degree of professionalism and effectiveness.*

- a. Basic member rights include the right to:
  1. obtain relevant and material information on the association in a timely and regular basis
  2. participate and vote in general meetings
  3. become part of the decision-making process
- b. Basic member responsibilities include:
  1. Being active in the organization
  2. Paying dues in full and in a timely manner
  3. Remaining loyal to the organization and not undermining it
  4. Observing the bylaws
- c. Member rights and responsibilities should be clearly defined in the bylaws and be accessible to all members.
- d. Recognizing the existence of different models for forming the board of directors, members should be engaged in composing the board and removing members of the board according to clear and transparent rules and procedures.
- e. Members have the right to participate in, and to be sufficiently informed on, decisions concerning fundamental changes in association structure such as: amendments to bylaws, articles of incorporation, or similar governing documents of the association.
- f. Governance structures should properly reflect the membership composition of an association.

## **Members as owners of the association**

- g. Members should have the opportunity to participate effectively and vote in general meetings and should be informed of the rules, including voting procedures, that govern general meetings.
- h. The governance framework should empower all members to exercise their ownership rights.
- i. Members should let boards exercise their responsibilities.
- j. Members should respect organizational positions on public policy issues taken in the interest of broad membership.

**III. Equitable treatment of members**

*The association governance framework should ensure fair and equitable treatment of all members.*

- a. All members of the same membership tier should be treated equally.
- b. Criteria for the division of different membership tiers, if such exist, should be clearly specified and available to all members.
- c. Processes and procedures for general meetings should allow for equitable treatment of all members. Procedures should not make it unduly difficult or expensive to cast votes.
- d. The advocacy agenda should reflect the needs and priorities of broad association membership.
- e. Where board decisions may affect different members differently, the board should treat all members fairly.

### IV. The role, structure, and responsibilities of the board

*The association governance framework should create a board that ensures strategic direction, develops policy, and monitors implementation; ensures compliance with organizational and national laws, regulations, and relevant ethical standards; ensures proper management by professional staff; and ensures accountability and openness.*

- a. There should be a clear separation of governance and management within the association. The board should fulfill its functions with the goal of achieving a proper balance between volunteer-driven and staff-driven associations.

Business associations rely on volunteers for key management and governance decisions. As such, maintaining a proper relationship between volunteers and paid staff is one of the key concerns of good governance. There are benefits to having volunteer-driven associations, where volunteers make the majority of leadership and organizational policy-level decisions, just as there are benefits to having staff-driven associations, where volunteers may act more in an advisory capacity to the staff, which makes the majority of leadership and organizational policy-level decisions. There is no right or wrong model in terms of having staff- or volunteer-driven organizations. The challenge is avoiding either one of the extremes and achieving the proper balance between the two different models by developing a governance structure that gets the volunteers and the staff to fulfill their core roles and responsibilities.

In this regard, volunteers should focus on fulfilling governance functions while enabling the staff to fulfill management functions within associations. Oftentimes, volunteers tend to assume management functions at the expense of focusing on governance. This model is often the result of a shortage of professional staff, which is an acute problem in many associations across the developing world. The solution to lacking professional staff, whether due to a dearth of human or financial resources, should be to develop existing staff to fill needed roles. This benefits the association over the long term more than having board members take on additional responsibilities that should stay with the staff.



## The role, structure, and responsibilities of the board

- b. The association governance framework should clearly define the responsibilities of the board and the executive staff and ensure that the division of labor and responsibilities is properly implemented.
- c. Recognizing the importance of separating governance and management, board members should be proactive in fulfilling their responsibilities, rather than passively responding to staff initiatives.
- d. The board should not transfer its responsibilities to the staff.
- e. The size of the board should be consistent with its structure – associations should avoid having boards that are too small and fail to properly reflect membership structures as well as boards that are too large for the organization's size.
- f. Board members should act on a fully informed basis, in good faith, with due diligence and care, and in the best interest of the association and its members while complying with all relevant laws and regulations.
- g. The association governance framework should promote complementary skills and backgrounds among board members to ensure a board that can fulfill its responsibilities.
- h. The association governance framework should provide clear and consistent guidelines on term limits for board members, which should be fairly and consistently enforced.
- i. Recognizing the right of individuals to personal political expression, the board of the association should remain politically impartial.
- j. The board of the association should ensure that all entities operating within the organization subscribe to its principles and do not become autonomous.
- k. Board members are accountable to the members of the association they represent.
- l. The association governance framework should establish criteria for evaluating and measuring the performance of board members and key executives.

## The role, structure, and responsibilities of the board

- m. Board members should subscribe to high ethical standards in the association as well as in their own businesses and should adopt and subscribe to an ethics code and a code of conduct.
- n. In order to fulfill their responsibilities, board members should have access to accurate, relevant, and timely information. Board members should also receive relevant training at appropriate intervals of their tenure and general orientation upon assuming the position.
- o. The association governance framework should be complemented by an effective approach that addresses and promotes the provision of analysis or advice by relevant experts free from conflicts of interest that might compromise the integrity of their analysis or advice.
- p. The association should put into place whistle-blowing procedures to ensure that violations are properly reported and addressed without harassment.
- q. The board should fulfill the following key functions:
  - 1. Ensuring compliance with the bylaws of the association
  - 2. Reviewing, approving, and monitoring the implementation of association strategy, major plans of action, risk policy, annual budgets, and business plans; setting performance objectives for key executives and the organization overall; monitoring implementation and association performance; and overseeing major financial expenditures and partnerships.

The role of the board in ensuring proper strategic development of the organization varies among different types of associations. At a minimum, the board should approve the strategy developed by the staff. Increasingly, boards take a more proactive role in strategy formulation and in ensuring its implementation by the organization. The board should have open channels of communications with management on strategy.

- 3. Monitoring the effectiveness of the association's governance practices and making changes as needed.

## The role, structure, and responsibilities of the board

4. Selecting, compensating, monitoring, and, when necessary, replacing key executives and overseeing succession planning.
5. Aligning key executive remuneration with the longer-term interests of the association and its members.
6. Ensuring a formal and transparent board nomination and election process and developing clearly defined board-member qualifications.
  - i. Rules for nominating and electing board members should be transparent and promote competition
  - ii. Relevant processes and procedures should be clear
  - iii. Voting processes should promote and encourage member participation
7. Establishing and empowering key board committees. Key board committees may include:
  - i. Audit committee
  - ii. Executive committee
  - iii. Membership committee
  - iv. Board selection and nomination committee
  - v. Ethics committee
  - vi. Risk management committee
8. Exercising its fiduciary responsibility, including:
  - i. Establishing an annual cycle for financial management that includes budget review and discussion, monitoring financial activities, and reviewing financial performance.
  - ii. Reviewing all dues and non-dues revenues.

## **The role, structure, and responsibilities of the board**

- iii. Establishing an audit committee and facilitating external audits as necessary.
  - iv. Ensuring that adequate resources are available for the organization to carry out its program of work and developing new sources of funding as necessary.
9. Monitoring and managing potential conflicts of interest between management and board members and avoiding self-dealing.
  10. Ensuring the integrity of the association's accounting and financial reporting systems, including the independent audit, and that appropriate systems of control are in place — in particular, systems for risk management, financial and operational control, and compliance with the law and relevant standards.
  11. Overseeing the process of disclosure and communications while building the organization's public image.

The board is responsible for clearly defining who shall be the spokesperson for the association and under what conditions and with what authority this person might represent the organization in a public environment.

## V. Disclosure and transparency

*The association governance framework should ensure that timely and accurate disclosure is made on all material matters regarding the association, including financial situation, performance, membership, and governance.*

Disclosure rules and scope should be consistent with the legal requirements of the country in which the association operates. These requirements may specify disclosure rules in regards to key documents, funding sources, financial flows, and other matters related to the operation of associations. The principles listed in this section should be followed as a matter of good practice. Even if public and regulatory bodies rule that disclosure is not necessary or needed, disclosure to members of the association as its owners is essential.

- a. Disclosure should include, but not be limited to, material information on:
  1. The financial and operating results of the association, including all relevant information on funding beyond membership dues.
  2. Association mission, vision, and objectives.
  3. Voting rights of members.
  4. Remuneration guidelines for key executives, information about board members, including their qualifications and the selection process. Board members in associations typically serve on a volunteer basis, but if they are compensated for their involvement by financial or any other means, such compensation should also be disclosed.
  5. Related party transactions.
  6. Foreseeable risk factors.
  7. Issues regarding employees and other stakeholders.
  8. Issues that affect how an association functions.

## Disclosure and transparency

9. Governance structures and policies — in particular, the content of any association code or policy and the process by which it is implemented.
  10. Key partnerships with stakeholders.
- b. Members of the board and key executives should be required to disclose to the board whether they, directly, indirectly, or on behalf of third parties, have a material interest in any transaction or matter directly affecting the association.
  - c. Information should be prepared and disclosed in accordance with high quality standards of accounting and financial and non-financial disclosure.
  - d. An annual audit should be conducted by an independent, competent, and qualified auditor in order to provide an external and objective assurance to the board and members that the financial statements fairly represent the financial position and performance of the association in all material respects.
  - e. External auditors should be accountable to members and owe a duty to associations to exercise due professional care in the conduct of the audit.
  - f. Relevant information should be readily available to intended users.
  - g. The association should protect and preserve relevant internal documents and business records that constitute a competitive advantage and disclosure of which could jeopardize the organization's programs and its members.

## VI. Relationship with stakeholders

*The association governance framework should ensure that relationships with key stakeholders are properly disclosed and are initiated in the best interest of all members of the association.*

- a. Any and all of the relationships with stakeholders, whether established through law or mutual agreements of cooperation, must be made known to the full board of directors, including terms and conditions of the agreement, communication channels, and timelines where appropriate.
- b. Where formal agreements with stakeholders do not exist, an association governance framework should establish a classification of key stakeholders and proper channels of communication with them, making it available to the board and key executive staff.
- c. The board should designate proper oversight and liaison to the chief staff executive for these relationships or engage a standing or special committee to handle it.
- d. Decision-makers should consider cooperation opportunities with other organizations or individuals, taking into the account the benefits as well as any costs to the association.
- e. There should be existing ground rules for participating in a coalition, including any limitations on commitment of funds, role of professional staff, reporting requirements, and designated spokesperson(s) for the campaign.
- f. Any relations with government officials, especially in the context of advocacy, should be open and transparent. An association governance framework should ensure that an organization remains non-partisan in its interaction with government and its agencies.
- g. In working with national or international donor organizations, associations should ensure that any of the programs they implement are in the interest of their members.

**VII. Ensuring effective institutional framework for governance of business associations**

*Effective association governance rests upon an institutional framework that promotes fairness, transparency, accountability, and responsibility in the private and public spheres and is consistent with the rule of law.*

- a. The legal and regulatory requirements that affect association governance practices in a jurisdiction should be consistent with the rule of law, transparent, and enforceable.
- b. The legal and regulatory requirements should enable and support transparent and democratic decision-making processes within associations.



## Notes

## Notes





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