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Leadership by Governing Boards

A Vision of Group Accountability

The vision I have for boards aims for far higher quality in the boardroom than has been common. My aim in this opening chapter is to broadly describe that vision, setting the stage for more detailed description in the following chapters. To begin, I look at ways of classifying boards in order to then limit the scope of the book to governing boards. Next, I describe the peculiar market circumstances that justify grouping nonprofit and public organizations together. I then step back to view the difficulty all boards—business, nonprofit, and public boards alike—have in fulfilling their opportunities, difficulties so prevalent as to require radical reform in governance thought. I summarize the normal prescriptions for board ills along with the reasons that these existing answers are insufficient, including those associated with the recent international flurry of corporate governance codes. I make the case that governance deserves special attention apart from other elements of organization. The chapter concludes with an argument for a new model of governance and the contributions this model should make to boards' capacity for strategic leadership.

The Vision

This book is not about making incremental improvements in boards. It is written primarily not for boards in trouble but for the best of today's boards. It describes and urges nothing less than a transformation in the practice of governance and, more important, in how people think about governance. My intent is to explain a compelling logical, philosophically founded yet completely practical approach to every governing board's job, one that renders it impossible to ever think of boards the same way again. Undertaking that aim is recognition that—analogous to Kant's compromise between extreme rationalism and extreme empiricism—governance theory without practicality is empty and governance practice without theory is blind.

Although this entire book is devoted to detailing my vision, I can give a broad-brush preview here of the kind of governance I have in mind. Boards will truly be leaders—not by invading territory best left to management but by controlling the big picture, the long term, and the value-laden. Boards will delegate powerfully yet safely to those who carry out the work of the organization, empowering them to the maximum extent that is consistent with maintaining the board's own accountability. Boards will seek diversity and inclusion but will express their decisions with one voice, not with the multiple voices of individuals. Boards will be grounded in an allegiance to a base of legitimacy that I will describe as tantamount to shareholders—that is, owners of the organization. In fact, the importance of the owners-to-board link is so great that the proper board job is best described as ownership one step down rather than management one step up. This concept alone completely changes the nature of governance.

This vision of board leadership applies equally to all governing boards, whether new or old, whether large or small, whether operating charitably or for profit. In the words of Adalberto Palma Gómez, senior partner of Aperture, S.C., a consulting firm in Mexico City, the Policy Governance model "provides a new vision for boards in all kinds of institutions, from governmental to private and nonprofit ones." In a similar vein, Sir Adrian Cadbury, the father of corporate governance codes, opined that the Policy Governance paradigm "is all embracing; it can be applied to any type of board or organization" because it is "a unifying theory of governance that covers both the corporate and voluntary sectors."

The vision I will describe here goes to the heart of why a governing board needs to exist by identifying the irreducible number of principles that apply to the task. Doing so enables the construction of a model or paradigm or theory or operating system—each of these words will work—that applies to any governing board of anything anywhere. I will deal with the deceptively appealing but ill-informed one-size-fits-all objection to this universality as the story unfolds.

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In much the same way as it has been said that management is management is management, I will defend the idea that governance is governance is governance. Prospective board members, executives, and consultants who learn the basics of such a universal governance theory can then apply it to any board situation in which they find themselves. Such a claim, of course, calls for great integrity in the fundamentals—an integrity of design I hope to explain to the reader's satisfaction.

It is important to note that the governance framework presented here is just that, a framework. It could be called a *foundational technology* of governance in that many other techniques can be adopted if kept within this framework. That is, as long as the principles of the paradigm are preserved, others' methods of problem solving, prioritizing, or interacting—for example, various problem-solving approaches, Myers-Briggs interpersonal dynamics, mind mapping, force field analysis, affinity diagramming, and other methods—can be very useful. If rigorously framed by the discipline of Policy Governance, good board work can be assisted by adapting all or parts of the great amount of study that has been devoted to decision makers. (Caroline Oliver's analogy of an operating system that is able to run many programs is fitting.) But since such aids—regardless of how good they are in themselves—were likely not developed with Policy Governance principles in mind, they can

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harm governance if not used judiciously. For example, the most sophisticated problem-solving techniques are useless if they are applied to the wrong level of problems.

I deal with governance as it shows up in nonprofit and governmental organizations in this book, leaving governance in equity corporations to the more specifically targeted *Corporate Boards That Create Value: Governing Company Performance from the Boardroom*, which I wrote with Caroline Oliver in 2002. (The reason for omitting detailed discussion of profit-oriented boards here is not that the same fundamentals do not apply but that the language and owner intentions are so very different. My reason for this exclusion will be explained more fully in this chapter. But a very brief treatment of equity corporations can be found in Resource A.)

Moreover, because it is so critical that boards fully understand the new ideas or, at least, the new way in which old ideas fit together, this book is not a "how to" text but one of principles and concepts. Although practical implementation is not overlooked in these pages, much of the detail on implementation is left to *Reinventing Your Board: A Step-by-Step Guide to Implementing Policy Governance*, which I coauthored with Miriam Carver in 1997, the revised edition of which is scheduled for publication in 2006.

In other words, I present a radically modernized *way to think* about governance, a conceptual coherence on which all real-world specifics and tailoring must be based. But before I can even begin to fulfill my intention to describe my vision for governance integrity and leadership, it is necessary to carve out some distinctions and to demonstrate the need for change in the first place.

Varieties of Boards

At one end of the decision-making scale, decisions are made by individuals and by small groups such as families or associates. At the other end, decisions are made in plebiscites and elections. In between, decisions are made by empowered bodies called boards. Two considerations delineate those bodies to whom my commentary directly applies: (1) the organizational position of the board and (2) the economic nature of the organization.

Boards Considered by Organizational Position

Governing board. The most important kind of board is that of ultimate corporate accountability—the governing board. The governing board is always positioned at the top of the organization. *Corporate board*, *board of directors*, *board of trustees*, *board of regents*, and similar titles denote groups that have authority exceeded only by owners and the state. The governing board is as high in the formal structure as one can go. Its total authority is matched by its total accountability for all corporate activity.

Advisory board. There are also boards whose function is to give counsel, not to govern. Advisory boards may advise the governing board, the CEO, or other staff. They can be positioned anywhere in the organization, as long as they formally attach to some proper organizational element. Advisory boards are optional and have only as much authority as the authorizing point within the organization chooses to grant. In some fields, it is common to find advisory boards that have been given extensive authority and whose advice is virtually certain to have an effect. As long as some position within the organization can retract the group's authority, it is not a governing board. An advisory board's authority can be curtailed only by the advisee, by law, or—in the case of membership organizations—by the membership.

Line board. Considerably more rare is the line board. The word *line* describes a heretofore unlabeled board type. Management literature has paid little attention to this form, except for the modified form discussed by Ackoff. The line board is not advisory, for it wields definite authority over subordinate positions. But it is not at the top of the organization and does not, therefore, qualify as a governing board. It is merely a group inserted where a single manager might have served.

Workgroup board. Sometimes people speak of a "working board" when they simply mean a board that stays busy. Hence, a governing, advisory, or line board might be a working board. My term, *workgroup board,* however, denotes a governing board with little or no staff. It must govern and be the workers as well. Frequently, boards that confine their role solely to governing began as this type of dual-function group.

Very small organizations, such as civic clubs, often have boards in this dual position. The group is incorporated, so a corporate governing board exists. Absent enough funds to pay a staff, board members are the only workforce in sight. This kind of board is not a true type in the way that governing, advisory, and line boards are; it is merely a governing board with another set of responsibilities. The organizational position of a workgroup board is not only at the top but everywhere else as well. It is very important for such boards to remember that they have two different, simultaneous roles and that they can best perform those roles by keeping them clearly separated.

Boards Considered by Economic Nature of the Organization

The power and responsibilities of advisory and line boards are determined by the specific organization rather than by a commanding generic principle. The foregoing discussion serves only to distinguish governing boards as the sole subject of this text. Throughout this book, I deal only with boards in their governing role.

It has long been common practice to differentiate the vast and disparate array of organizations governed by boards into three groups: *profit* (*equity* or, loosely termed, *business*), *nonprofit,* and *governmental.* Additional characteristics distinguish subgroups of each of these three main groups. For example, equity corporations are grouped as *public* (publicly traded) and *private* (no public trading). Nonprofits are also divided into *public* (directly related to government, sometimes quasi-governmental) and *private* (related minimally or not at all to government). Nonprofits range from purely charitable to trade or professional associations whose aim is to serve the interests of their members. Governmental organizations include not only the jurisdictional governance of cities, townships, counties, provinces, and states but also districts for water supply, schools, pollution control, and a host of other authorities. For the present discussion, I ignore the subgroups and concentrate on the three major types: profit, nonprofit, and governmental.

Profit boards. Equity corporations engage in trade in order to produce a return for shareholders. These companies ordinarily compete in markets that range from free markets to markets that enjoy considerable governmental protection. Governing boards in business range from the obligatory figurehead board of an entrepreneurial business to a highly formalized, paid group representing diverse stockholders.

Nonprofit boards. Corporations chartered for charitable purposes (or, at least, not for return on equity) have no stock ownership, though statutes may require a formal membership as a stockholder-equivalent. Internationally, such organizations are often referred to as *nongovernmental organizations* (NGOs). In the United States, the term *private voluntary organization* (PVO) is frequently used to describe international nonprofits. NGOs and PVOs are included among nonprofit agencies.

Although nonprofit corporations may accumulate surpluses, their accounting systems have no place for profit. They differ from other corporations in that they are exempt from certain taxes and are unable to distribute their surpluses to holders of equity. (In the United States, this exemption includes not only the familiar 501(c)(3) but several other categories of preferred tax status.) Nonprofit corporations frequently receive a large proportion of their revenues from funding from other organizations and donations from individuals rather than from sales of a product. Obligations of nonprofit governing boards under the law, however, are similar to those of boards of other corporations.

Governmental boards. Governmental boards, elected or appointed, are bound by more legal requirements in both their composition and their process than are the foregoing types. Governmental organizations are like nonprofit organizations with respect to profit and distribution of earnings. Governmental boards may be quasi-governmental (for example, boards for water systems or airport authorities) or fully governmental (for example, city councils). They may or may not have taxing authority. Governmental organizations are similar to nonprofit organizations in that they derive their revenues not from sales but from taxation and user fees.

Profit, nonprofit, and governmental governing boards have much in common. They are alike in that they all bear ultimate accountability for organizational activity and accomplishment. They are unlike in how they are situated in the larger context of political and economic life. They differ in how much public scrutiny they receive, a factor that produces differences in the amount of posturing involved in board dynamics. They vary in the degree to which the procedures of governance are prescribed by law. They differ greatly in the strength of the traditions that drive their methods. Many governmental boards have traditions that were established long before twentieth-century management appeared on the scene. Powerful precedents make it difficult for legislatures and county commissioners, for example, to behave as though modern management principles were ever developed.

This book focuses specifically on governmental and nonprofit governing boards. I am concerned not with what those boards are called but solely with their function as governors. Some of the alternate terms for *board* are *council*, *commission*, *assembly*, *house of delegates*, and *elders*, among many others.

From here on, the word *public* will refer to the various types of governmental entities, because in common perception, *public* bridges the gray area between special-purpose governmental groups and quasi-governmental nonprofits. This focus is useful as we explore governance, even though there is nothing inherent in the nonprofit or public organization per se that causes governance to be different from that in profit companies. Then why do I address public and nonprofit governance, particularly in view of the extremely disparate array of organization types included under that rubric? After all, are they not more different than they are alike? The Ford Foundation, a community arts guild, and a credit union may not appreciate membership in this mixed club. The justification for classifying them together is that the boards of most nonprofit and public organizations share a compelling factor: the peculiar nature of their markets and what their owners want the organizations for.

Life in the Muted Market

Companies organized for profit typically receive money through sales. Sales revenues are the result of an exchange between the company and consumers. Consumers judge whether the good or service is worth the price. If it is not, they do not buy; if it is, they do. By and large, then, the success of companies competing in such a market is revealed in their financial statements. But for nonprofit and public organizations, income statements not only fail to express success and failure but may even obscure them. In other words, the "bottom line" does not show up in their financial reports.

Nonprofit and public organizations ordinarily receive money from sources other than those who use their products. Direct consumers may pay a discounted price or even nothing. The organization may receive a subsidy from donors and tax sources to make up the deficit. There is no consumer judgment of the product's rightful price, because the consumer is not confronted with that choice. Consequently, although nonprofit and public organizations may be buffeted about by budget pressures and funding squeezes, there is no direct market force bearing on the relationship between product and price.

One relevant variable that separates the governance of most public and nonprofit enterprises from most profit organizations is the automatic market test of product worth. I define a market test as consumers' free decisions about whether a given product, among alternatives, is worth the cost of its production. If alternatives are unavailable because of artificially blocked competition, there is no clean market test. If the consumer does not pay the entire price, there is no clean market test. This definition focuses on the *automatic consumer judgment* aspect of market. The absence of this automatic judgment does not mean that the word *market* cannot be used. For example, public schools and family planning centers each operate in some identifiable market and may fare better if their staff does a good job of marketing. This use of the terms *market* and *marketing*, however, is unrelated to the integrity of the market test I have described.

Without a market to summarize consumer judgment, an organization literally does not know what its product is worth. (Later, I will argue that it may not even know what its product is!) An organization may know what the product costs to make and what the staff thinks about product quality. It may know that consumers are raving with delight. It may even know precisely how effective the product is. But without a market, the organization still does not know what its product is worth.

From a governance perspective, then, the relevant factor that sets most nonprofit and public organizations apart from profit organizations is not how they are managed, for the principles of management are the same in each setting. The difference is not in distribution of earnings, for this is a matter of accounting rather than substance. What is different—with profound effects—is that most nonprofit and public organizations lack a behavioral process to aggregate the many individual evaluations of product and cost. The organization is missing the foundation that would enable it to define success and failure, to know what is worth doing, and, in the largest sense, even to recognize good performance.

So the typical public or nonprofit board is faced with a challenge that business boards never have to confront. In the absence of a market test, the board must perform that function. The board must bear this peculiar additional burden if it is to act responsibly. It is not enough to be efficient, nor is it enough even to produce fine products. Any reasonable definition of productive excellence must relate chiefly to whether a good or service is worth the full economic cost of its production.

From this point on, I refer to public and nonprofit organizations as if they all lack a rigorous market test. That will prove sufficiently true to justify the simplification, though exceptions exist. Nonprofit hospitals, for example, operate in a harsh market environment, albeit one of great artificiality imposed by regulation and insurers, depending on the country. For nonprofit and public organizations that are truly subject to an unsubsidized market judgment, the peculiarity discussed here is not true. In these cases, the board's task is easier, though the concepts and principles in the model presented here will still contribute to their governance. Among the vast array of public and nonprofit organizations, however, such truly market-tested instances are in the minority. With this proviso, I consider public and nonprofit boards to be engaged in serving a muted market.

Producing What Owners Want

Consider three intentions persons might have for organizing. First, if persons organize for the purpose of making a monetary return on their investment, they would seek corporate status under for-profit statutes. Second, if persons organize in order to make their own lives better (but not in direct monetary ways), they might incorporate as a professional society or trade association. Such an organization might be a nonprofit, but it would have no access to the most favorable tax treatment. In a special case of this type, if the persons wish to wield coercive police power over

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themselves and others, they would seek a state or provincial charter as a municipality. Third, if a group organizes in order to make life better for others, it would incorporate as a nonprofit and would be eligible for considerable tax advantages.

In each case, the purpose of the organization flows from what its owners want it for, but the task of defining what a nonprofit or governmental organization is for is a far more multifaceted task than defining intended monetary shareholder value for the equity corporation. An equity corporation, to be sure, must manage the market well, but its board never has to speak for the market (to determine what products are worth) in the way that nonprofit and governmental boards must.

The Flaws of Governance

Even boards that are free of the "market surrogate" burden have shown that the challenges of governing are almost too great. Governing boards have not been vessels of exemplary efficiency, even in the best of situations. Writing of corporate boards, Drucker (1974) said, "There is one thing all boards have in common, regardless of their legal position. *They do not function.* The decline of the board is a universal phenomenon of this century" (p. 628, emphasis added). Geneen (1984) of ITT complained that boards are unable to protect the interests of stockholders whom they represent: "Among the boards of directors of Fortune 500 companies, I estimate that 95 percent are not fully doing what they are legally, morally, and ethically supposed to do. And they couldn't, even if they wanted to" (p. 28).

Smith (1958) found it to be "ironic . . . that we in the United States have so neglected this most vital area" (p. 52). While every other management function has been exhaustively studied and analyzed, "the responsibilities of the board and the distinction between board and management have been sorely neglected. Management literature on the subject is pitifully brief and strikingly devoid of any real depth or new ideas." Juran and Louden (1966) pointed to the same root for the problem: "It is an astonishing fact that the job of the board of directors is, in proportion to its intrinsic importance, one of the least studied in the entire spectrum of industrial activities. . . . As a consequence, the job of the board of directors has received neither the benefit of the broad exchange of practical experience nor the intensity of study which has been available to other corporate activities" (p. 7).

Despite years of potential improvement, later observers made equally damning comments. Boards have been "largely irrelevant through most of the twentieth century" (Gillies, 1992). They are "like ants on a log in turbulent water who think they are steering the log" (unknown source quoted by Leighton and Thain, 1997). Leighton and Thain (1997) explain, "The truth is that boards are too often self-perpetuating, more interested in retaining power than in responding to the wishes of shareholders" (p. 39). Arthur Levitt (1998), chairman of the U.S. Securities and Exchange Commission, complains, "There are too many boards that overlook more than they oversee. Too many that are re-active instead of pro-active."

Though possessed of ultimate organizational power, the governing board is understudied and underdeveloped. Here we confront a flagrant irony in management literature: where opportunity for leadership is greatest, job design for leadership is poorest. The worldwide flurry of attention to governance codes in the corporate world that began as the twentieth century ended serves as an indictment of existing governance thinking and practice.

It is against this uninspiring backdrop of governing boards in general that I deal here specifically with boards of public and nonprofit organizations. It is little wonder that such boards have difficulty, for their faults include those of profit boards plus those peculiarly contributed by their artificial market situation and their more complicated delineation of purpose. If the governance of supposedly rational, modern business corporations is not without underlying weaknesses, it should not be surprising that the governance of nonprofit and public enterprises presents an extensive array of blemishes.

What Goes Wrong

It doesn't take a scholar to find the problems in nonprofit and public governance. Random observation of a few nonprofit and public boards will expose many of the normal shortcomings. Nonprofit and public boards stumble regularly and visibly. Individual board members and executives have often felt that one specific act or another is silly or empty. They rarely say so, however, for the charade has a commanding history, eliciting an almost conspiratorial agreement not to notice organizational fatuousness.

It is predictable in almost all organizations that employees know what their respective jobs are with more confidence and accuracy than the board knows its own. Moreover, there is normally more precision about, more studied attention to, and more monitoring of performance in staff tasks than governance. Try to find an arts board as skilled in governance as its artists are in their work. Look for a hospital board as skilled in governance as surgeons, nurses, and even building maintenance personnel are in their arenas. For that matter, seek an automobile manufacturer board as deft in governance as its engineers are in their calling.

The problem is not that a particular board or an individual board member occasionally slips into poor practice but that intelligent, caring individuals regularly exhibit procedures of governance that are deeply flawed. Chait, Holland, and Taylor (1996) provocatively and accurately remark that effective governance is "a rare and unnatural act" (p. 1). Certain common practices are such obvious drains on board effectiveness that one does not need a sophisticated model to recognize them. Although some boards may avoid a few of the following conditions, rarely does any one board avoid them all.

Time spent on the trivial. Items of trivial scope or import receive disproportionate attention compared with matters of greater scope or importance. Richard J. Peckham, on joining a major public board in Kansas, found it so lost in trivia that "I thought I'd been banished to outer darkness." Major program issues go unresolved while boards conscientiously grapple with some small detail. An Illinois school board proudly proclaimed the "active role the members of our board take in purchasing decisions. . . . The administration [in replacing desks in two classrooms] was directed to select three chairs from different companies and have them available for the next board meeting. The board then made the decision on warranty, durability, price and color." A national survey found that almost half of America's school boards made the purchasing decisions for tape recorders, cameras, and television sets (National School Boards Association, n.d.). Little wonder that Chait, Holland, and Taylor (1996) claim, "Trustees are often little more than high-powered, well-intentioned people engaged in low level activities" (p. 1).

Short-term bias. The time horizon for board decisions is more distant than anywhere else in the organization. Yet we find boards dealing mainly with the near term and, even more bizarre, with the past. Last month's financial statement gets more attention than the organization's strategic position.

Reactive stance. Boards consistently find themselves reacting to staff initiatives rather than making decisions proactively. Proposals for staff action and recommendations for board action so often come from staff that some boards would cease to function if they were asked to create their own agenda.

Reviewing, rehashing, redoing. Some boards spend most of their time going over what their staff has already done. "Eighty-five percent of our time was spent monitoring staff work," says Glendora Putnam, Boston, about a prominent national board. "We can't afford that. We have too much wisdom to be put to use." Just keeping up with a large staff can take prodigious hours and even then can never be done fully. But the salient point is that reviewing, rehashing, and redoing staff work—no matter how well—do not constitute leadership.

Leaky accountability. Boards often allow accountability to "leak" around the chief executive. Having established a CEO position, the board members continue to relate in their official capacities with other staff, either giving them directions or judging their performance, rather than allowing the CEO to do his or her job.

Diffuse authority. It is rare to find a board-executive partnership wherein each party's authority has been clarified. Often, a vast gray area exists. When a matter lies in this uncertain area, the safe executive response is to take it to the board. Instead of using this opportunity to clarify to whom the decision belongs, the board simply approves or disapproves. The event has been settled, but the boundaries of authority remain as unclear as they were before.

Complete overload. Unless a board rubber-stamps decisions or just ignores issues, it is likely to be overwhelmed by a seemingly impossible job. The board just cannot get to everything and is likely to miss important red flags.

Moving Toward Solutions

Many board flaws that seem to be cosmetic blemishes are indicative of more fundamental errors. "These are just symptoms of a problem," says Barry Romanko of the Alberta Ministry of Parks and Recreation in St. Paul, Canada. "The problem is that we are giving boards the wrong job." Attacking the superficial flaws might in itself be a worthy undertaking. Similarly, it might be useful to invoke the usual admonitions: "Stick to policy!" "Let your CEO manage!" "Don't rubber-stamp!" But it would be even more instructive to build a healthier infrastructure of governance concepts. Framing the governance challenge more effectively can go far beyond merely eliminating common problems; it can provide a clearing in which boards can be strategic leaders.

Inadequate Prescriptions

At some level, boards and executives are well aware of the historical deficiencies in the ways they operate. An explosion of popular interest in management issues beginning in the 1970s sharpened the perception that governance is not all it can be. (The effects of a further upsurge of interest in the governance of publicly traded companies as the twentieth century came to a close will be dealt with later in this chapter.) Board training has received more attention because of this awareness. Many board members, executives, and observers have offered counsel for ailing board practices all along. But somehow the prescriptions, though quite rational, have fallen short. At best, they have cleaned up some of the clutter and the more striking inefficiencies in board operation. But because few previous efforts have been based in a complete conceptual model, prescriptions have largely been piecemeal, anecdotal wisdom. Most prescriptions have concerned the level of board activity, the board-staff relationship, or the nature of board work. The appeal of each is that it accurately assesses one part of the elephant.

Prescriptions About Activity and Involvement

More involvement. One solution to the problems of governance is that boards should be more involved. They should participate directly in the work of the organization, volunteering time and energy to become physically involved in doing things. A board operating at a distance is a board too detached to understand, much less to make a difference. Board membership means having access to the good works of an organization without having to go through the hiring process to get there. Those who espouse greater board activity greatly need to "know what is going on" in the organization. Reflecting the hyperinvolvement, the board agenda is likely to be drawn out and committee work may be heavy.

Less involvement. Boards should be less involved. By participating directly in the work of the organization, the board tends to become lost in the trees and to lose sight of the forest. While equity corporate boards are criticized for insufficient independence from management, nonprofit boards' involvement in internal affairs hinders their independent judgment just as much. Board members are better as governors around a board table than as a prestigious auxiliary staff. The board's job is "to choose a CEO, then stay out of the way," confided a hospital trustee in Wisconsin. Persons who call for less involvement often propose keeping up with relevant facts through reports, particularly financial ones. Agendas are likely to be crisp and "businesslike." Committee work may be light.

Prescriptions About Board-Staff Relations

Board as watchdog. The board, as the ultimately accountable agent, should keep a sharp eye on staff activities. This close oversight limits the degree of power delegated, requiring many board approvals and close questioning of staff. A utility commissioner in Minnesota claimed that the commission's main function is to "keep a wary eye on the staff." Boards acting as watchdogs become heavily involved in administration, often in busy committees related to staff activities. Tight control is seen as the road to accountability or, at least, to safety. Some boards take the watchdog posture so far that they develop an adversarial relationship with staff; anything brought before the board becomes a trial. In an alternate watchdog role, the board may ally itself with lower-echelon staff members and—as reported by a poverty agency board member in Ohio, for example—may perceive issues in terms of protecting staff from administrators. At their best, such boards are constructive skeptics.

Board as cheerleader. Staff members are basically honest and capable, so the best board role is to be supportive and cheer them on. The hallmark is trust. After all, the key to governing well is choosing a chief executive in whom you can believe and then standing behind him or her. Cheerleader boards stay out of administration because it is none of their business. They may even refrain from asking the hard questions, because to do so would show a lack of faith. Rubber-stamping executive requests is an expression of gratitude that things are going so smoothly. Often, the governing board's role is seen as advisory after a CEO is installed. Loose control is the best approach ("After all, we are just volunteers"). A part-time board should not get in the way; its role is not so much to govern the staff as to be its apologist and champion.

Prescriptions About Board Work and Skills

Board as manager. Boards, though one step removed from daily operation, should become more proficient in management skills so as to act as managers. Board members are chosen in part because of their skills in personnel, finance, program leadership, and so forth. The board is likely to pore over financial statements, staffing patterns, and maintenance reports. It engages staff in the intricacies of management. Committees are structured along the lines of staff departments such as personnel and public relations. The board, more or less autocratic, is seen as the supermanager or at least as sharing management responsibilities with its top staff.

Board as planner. Because planning is an integral part of managing, boards should predominantly plan. Boards plan the elements of personnel, finance, and so forth, rather than engaging in current implementation. Boards develop long-range plans and, with their committees, spend long hours to create a plan document.

Board as adviser. Because boards are composed of experienced persons, they should make those skills and knowledge available to staff. Boards primarily exist to provide useful advice. There may even be several board committees that are devoted to specific advisory areas.

Board as fundraiser. While the staff go about the business of the organization, the board's challenge is to make sure there is enough philanthropic funding to keep the organization afloat. "Give, get, or get off" is the board's mantra.

Board as communicator. The board should communicate better among its members and with staff. If board and staff could only hear each other better, the organization would have a more satisfying process and, hence, a more satisfactory product. Particularly on multiethnic community boards, the existence of barriers to communication lends credence to this approach. The path to better governance lies in better human relations.

Why the Prescriptions Disappoint

These are not the only prescriptions, nor are they really distinct types. They illustrate the range and divergence of proposed solutions to board ineffectiveness. And from the standpoint of slight improvements, they do not all fail. What is confusing is that each prescription contains just enough truth to be considered plausible. At one time or another, they can all be good approaches.

The problem with anecdotal wisdom, however, is its spotty applicability. A former rubber-stamp-type board that has been duped by its CEO will surely improve by being more involved, exerting tighter control, or acting as supermanager. A board fatigued by interminably long meetings may be wise to move toward shorter meetings with more businesslike agendas. In slightly different circumstances, however, these solutions would themselves be the problems.

Problem-based prescriptions sow the seeds of the next difficulty, because the solution often outlives the problem that justified it. Soon the board that shifted to shorter meetings finds it cannot keep up with issues as well as it desires. Or a good CEO is lost because he or she will not tolerate the tight control and suspicion left over from the previous pendulum swing.

Prescriptions for board improvement are often based on current problems or problems that board members have experienced elsewhere. Problem-based improvements may be absolutely sensible and still miss the mark. They may cure present difficulties yet not prevent a wide range of potential future problems. Correcting insufficiencies by looking backward at what they have been simply invites the next, perhaps opposite error. It is like trying to drive down the highway with a firm grip on the rearview mirror.

Governance as Unique Management

A paradigm tailored to the special circumstances of governance would enable us to apply wisdom more coherently. When a function has been assembled from bits of historical practice, it cannot as gracefully incorporate wisdom but must patch it on here and there. Tailoring management principles for governance, however, assumes that boards call for special treatment. This section argues that governance certainly is special, though not for the reason most frequently cited.

The Red Herring of Voluntarism

Boards of nonprofit and some public organizations think of themselves primarily as volunteers. This identity adds little and potentially costs a great deal. Responsibility, authority, job design, and demands of a board are not affected by being paid or unpaid. Beyond strengthening the sense of public service, being a voluntary board is irrelevant to governance and its attendant burden of accountability. On the other hand, some connotations of voluntarism can detract from the board's job, severely reducing its ability to lead.

Volunteers are a tradition of North American life, offering many skills, insights, and hours in a commendable expression of helpfulness. Volunteers help get a job done without compensation. For an existing organization, that usually means helping the staff, inasmuch as staff is engaged in the actual work. Governing boards, however, exist not to help staff but to own the business—usually in trust for some larger ownership. If anyone is helping, it is the staff. Volunteers on governing boards are expressing an ownership interest rather than a helpfulness interest. Owning the business conveys a power that cannot be responsibly grasped as long as board members think they are there to help. Power not used is power defaulted on and, ultimately, power irresponsibly used. It is destructive to confuse helpfulness with ownership. By emphasizing their volunteer status, boards risk weakening their effectiveness.

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Because the same person can wear two different hats, board members may also be volunteers at a staff level. It is important that the hats be kept distinct in everyone's mind. The board as an official body (as opposed to individual members) is well advised to limit its role to owner representative only. It is not necessary for the board to be a source of advice to staff; in fact, that can be problematic. But it is *crucial* that the board be in charge; the chain of command—or chain of moral authority, if you will—will tolerate no less. Consequently, the board's pivotal role is not adviser or helper, but commander.

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Boards as Trustees

Unlike other managers who work for a well-defined superior, boards ordinarily work for either a vaguely defined group or a well-defined but difficult-to-communicate-with group. The former is illustrated by a public radio station board, the latter by a city council. There is someone out there for whom the board acts in trust, but it is difficult to tell who that someone is. Consequently, boards have more difficulty than other managers in getting their marching orders and their evaluations.

This book promotes the concept of moral ownership in order to isolate the various stakeholders to whom the board owes its primary allegiance. The concept results in a more carefully defined group than what is normally meant by *stakeholders*. For community boards, this ownership is the community at large; for membership associations, the membership is the ownership. I will deal later with how the ownership concept is of critical importance in designing governance, even in organizations where the concept of owners seems foreign. For now, however, it suffices to say that a board cannot optimally fulfill its responsibilities without determining who is included in its ownership and how those owners can be heard.

Boards as Unique Decision Makers

Although management principles are relevant to governing, it is better for boards to think of their task as an extension downward of ownership rather than an extension upward of management. Governance is ownership one step down, not management one step up. The management skills that might be helpful are similar to the overview management skills a CEO needs rather than specialized management skills, such as purchasing, marketing, and personnel administration. But the board's job is not just to act as a part-time über-CEO, for there are peculiarities that render governance unique. Several decision-making features are inherent only in the governing body:

- Boards are at the extreme end of the accountability chain. Other managers must deal with persons both above and below their station. The buck stops with the board. It has no supervisor to carve out what portion of a given topic it is to oversee.

- The board acts, in a moral sense and sometimes a legal one, as the agent of a largely unseen and often undecided principal, an entity that may express itself in curious and spotty ways, if at all.

- The board is a set of individuals operating as a single entity. Melding multiple peer viewpoints and values into a single resolution is peculiar to a group acting collectively as an authority.

- Individuals' discipline tends to suffer when they belong to groups. A board is likely to have less discipline than any one of its members operating alone.

- Boards are ordinarily more than the usual managerial arm's length from the next lower organizational level. They are not only part-time but also physically removed.

- Boards are groups that oversee one person, whereas managers are single persons who oversee groups; governance structure is like management upside down. Mueller (1981) argues that governance in its essence differs from management. It is, he claims, an unfolding, always incomplete phenomenon driven by "soft realms of thought and deportment. They are value-laden, subjective, intuitive and characteristic of the art forms dealing with social interaction" (p. xii).

Effects of Recent Corporate Governance Reforms

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The most recent wave of reform in corporate governance began in 1990 with publication of the Cadbury Committee report in the United Kingdom. The corporate world owes a debt to Sir Adrian Cadbury for this breakthrough, though it had little direct effect on nonprofit or public boards. In successive steps, the movement in the United Kingdom challenged the combined CEO/chair, the proportions of executive (inside) to nonexecutive (outside) directors, and other widespread practices. As the 1990s wore on, however, a series of governance debacles caused a flurry of governance codes to be developed or enhanced over much of the world. Because of its position in the world of capital markets, the United States joined the fray with a vengeance with passage of the Sarbanes-Oxley legislation in 2002. Although the legislation was similar to codes arising elsewhere and is only binding on publicly traded companies, many nonprofit and public boards began treating its provisions as the gold standard in governance, worth emulating even without a mandate to do so.

Corporate governance codes in general and Sarbanes-Oxley in particular do little to improve the nature of governance but much to protect investors from governance. They represent "development-by-accumulation" (Kuhn, 1996, p. 2) rather than being grounded in a conceptually coherent theory. Their focus on transparency and independence is hard to fault, but these are hardly prescriptions for how to govern. Moreover, codes' prescriptions regarding committees and the roles of CEOs and chairs are, frankly, dysfunctional. Corporate boards in the United States, suddenly getting religion about governance, spent huge amounts in legal costs to conform to the new law. It can easily be argued that they are no more interested in good governance than they were before but are very, very interested in lawful compliance.

Consequently, existing codes, to their credit, prohibit a number of bad practices, requiring more stringent controls on conflict of interest and management dominance. They are much like traffic laws that impose rules for stops, turns, speed, and licensing. But everyone knows that meticulous observance of traffic laws, while clearly a desirable thing, does not in itself make one a good driver. Policy Governance boards already exceed the substantive requirements of corporate governance codes. They can easily conform to the nonsubstantive elements by using the consent (automatic approval) agenda described in Chapter Ten.

Being without a theoretical base, corporate governance reforms take on a fad-like quality, driven by the political heat of the moment and adding one piecemeal solution on top of others. The greater involvement of directors, for example, easily becomes greater meddling instead of greater policy control. The understandable backlash discredits even the useful part of the involvement message. Writing to American corporate directors, Rehfeld (2005, p. 1) wishfully reported, "The thought of requiring directors to put their noses into everything the company does but maintain a traditional hands-off posture seems to have run its course." Indeed, Canadian corporate magnate Conrad Black called ongoing corporate governance reforms a fad. Interestingly, his own corporate empire was subsequently plagued by a host of widely publicized governance problems.

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Toward a New Governance

In light of all these factors, I have translated principles of modern management to address the peculiar circumstance of governing boards. The adaptation goes beyond a collection of helpful suggestions; it is a fundamentally reordered paradigm for governance. Governance as widely practiced is a farrago of historical accidents and disjointed elements no doubt contrived by intelligent people. But having not arisen from a coherent sense of the whole, it is gravely flawed.

A model of governance is a framework within which to organize the thoughts, activities, structure, and relationships of governing boards. A designed model yields a new nature of governance, quite unlike a collection of even wise responses to specific governance problems. What should we expect from a model? What conditions would be better if there were a better framework within which to build governance actions? Keeping in mind that *model* in this context means a set of principles rather than a one-size-fits-all structure, I think we have a right to expect a good model of governance to do the following:

1. *"Cradle" vision.* A useful framework for governance must hold and support vision in the primary position. Administrative systems cause us to devote great attention to the specifics. Such rigor, while commendable, can overshadow the broader matter of purpose. There must be systematic encouragement to think the unthinkable and to dream.
2. *Explicitly address fundamental values.* The governing board is a guardian of organizational values. The framework must ensure that the board focuses on values. Endless decisions about events cannot substitute for deliberations and explicit pronouncements on values.
3. *Force an external focus.* Because organizations tend to focus inward, a governance model must intervene to guarantee a marketlike, external responsiveness. A board would thus be more concerned with needs and markets than with the internal issues of organizational mechanics.
4. *Enable an outcome-driven organizing system.* All functions and decisions need to be rigorously weighed against the standard of purpose. A powerful model would have the board not only establish a mission in terms of an outcome but procedurally enforce such a mission as the central organizing focus.
5. *Separate large issues from small ones.* Board members usually agree that large issues deserve first claim on their time, but

they have no common way to discern a big item. A model should help differentiate sizes of issues.

6. *Force forward thinking.* A governance scheme should help a board thrust the majority of its thinking into the future. Strategic leadership demands the long-term viewpoint.
7. *Enable proactivity.* So that boards do not merely preside over momentum, a model of governance should press boards toward leading and away from reacting. Such a model would engage boards more in creating than in approving.
8. *Facilitate diversity and unity.* It is important to optimize the richness of diversity in board composition and opinion yet assimilate that variety into one voice. A model must address the need to speak with one voice without squelching dissent or feigning unanimity.
9. *Describe relationships to relevant constituencies.* In either a legal or a moral sense, boards are usually trustees. They are also, to some extent, accountable to consumers, neighbors, and staff. A model of governance should define where these various constituencies fit into the scheme.
10. *Define a common basis for discipline.* Boards have a tough time sticking to a job description, being decisive without being impulsive, and keeping discussion to the point. A model of governance should provide a rational basis for a board's self-discipline.
11. *Delineate the board's role in common topics.* A model of governance should enable a board to articulate its own roles with respect to the roles of others, so that the board's specific contribution on any topic is clear.
12. *Determine what information is needed.* A model of governance would introduce more precise distinctions about the nature of information needed to govern, avoiding too much, too little, too late, and simply wrong information.

13. *Balance overcontrol and undercontrol.* It is easy to control too much or too little or even, ironically, to do both at the same time. The same board can simultaneously be a rubber-stamper and a meddler. A model of governance would clarify aspects of management that need tight versus loose control.
14. *Use board time efficiently.* Members of nonprofit and public boards receive token or no pay in exchange for their time. Though they willingly make this contribution, few have time to waste. By sorting out what really needs to be done, a model should enable boards to use the precious gift of time more productively.
15. *Enable simultaneously muscular and sensitive use of board power.* The board has the difficult task of being powerful, yet not stultifying. A model should provide a way to fulfill such a balancing act.

A conceptually coherent way to approach governance would be strong medicine for nonprofit and public organizations. Ian R. Horen, CEO of Painting and Decorating Contractors of America in St. Louis, agrees, noting that while "forces within the organization will suggest that the uniqueness of not-for-profits is anchored in shared decision making," this "point of view simply dismisses the dramatic change that has occurred in not-for-profit management." The most significant management breakthrough that could occur would be in the highest-leverage element of the organization—the governing board. Both the leverage and the room for improvement scream urgently for attention.

But boards have been around so long that it is hard to see that the emperor has no clothes. We have grown accustomed to mediocrity in nonprofit and public board process, in the empty rituals and often meaningless words of conventional practice. We have watched intelligent people tied up in trivia for so long that neither we nor they notice the discrepancy. We have observed the ostensible strategic leaders consumed by the exigencies of next month. Mindful people regularly carry out mindless activity and appear to be, as Phillip T. Jenkins of Bryn Mawr Associates in Birmingham, Michigan, put it, "the well intentioned in full pursuit of the irrelevant." Inexplicably, effective people have a different standard of excellence for public and nonprofit boards than for other pursuits, "often [tossing] aside the principles of good management, and sometimes even common sense, when they put on trustee hats" (Chait and Taylor, 1989, p. 44). The forum in which vision should be the chief order of business is mired so chronically in details that, growing weary, we come to see nothing amiss. Boards, after all, will be boards!

We need strong boards, and we need strong executives as well. "One of the key problems," observes Robert Gale, "is that many boards are either too weak to accomplish anything or so strong they wind up managing the organization." When increased strength is dysfunctional, the solution is not, of course, to weaken the strong. It is better that the blessing of a strong engine be augmented by an improved chassis, not "solved" by shorting out a few spark plugs. When their strength causes boards not to do their job better but to intrude on the jobs of others, something is awry in the design. We must take a fresh look at governance concepts and the board-management partnership. The stark truth of Gale's comment is reason enough for a new model of governance.

It need not bespeak paranoia to observe along with Louden (1975) that "if we do not concern ourselves with how we can rule organizations, the organizations will rule us" (p. 117). But the paradigm according to which we traditionally rule is worthy neither of the people who give their time and talent nor of the missions they serve. Governance is overdue for a rebirth. Though much has been written over the past several decades about governing boards, with rare exceptions the efforts offer incremental improvement to an inadequate vehicle via new paint and tires. The purpose of this book is not to indict previous efforts or current performance so much as to prescribe a better way. My message is that strategic leadership is both exciting and accessible.

Next Chapter

The chapters that follow lay out a new vehicle for governing, a model whose premise is not incremental improvement in the capacity to govern but *transformation*. Seeing policies in a more exacting light is the first step toward creating the new model, one now widely known as the *Policy Governance model*. Therefore, I begin in Chapter Two by arguing that the opportunity for greater strategic leadership lies first in the redefinition of policy and policymaking.

WANT MORE?

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