1

Setting the Stage

Are You Sure You're Ready for This?

In teaching the principles of the Policy Governance model to boards all over North America and, to a lesser degree, in Europe, Asia, and Australia, we have become accustomed to hearing some typical questions. This one is among the most common:

This is great in theory, but how do you actually do it?

People are generally drawn to the simple logic of Policy Governance, but they recognize that it differs radically from their experience of boards and the board-staff relationship. Indeed, how do you actually do it?

It's a good question. Policy Governance, like any important job, is a process that has to be done right. The board is at the top of any organization, with authority over and accountability for that organization. With that kind of leverage, getting governance wrong is costly.

Implementing the Policy Governance model means developing your governing policies according to the principles of the model, then consistently using these unique documents according to those same principles. The largest part of this book (Part Two) will guide you through a process of developing those policies. But first, how can your board get ready to embark on the process of creating policies?

In order to implement Policy Governance, your board members must understand its theoretical principles. We hope that all board members are already familiar with the model. Still, it will be helpful to refer frequently to *Boards That Make a Difference* or to our theoretical review in Chapter Two of this book.

This chapter helps you set the stage for a successful change process. What follows are some more of the frequently asked questions about the process of developing policies. They give us the opportunity to suggest methods and procedures that you may find useful in planning your work.

What if we want to use another Policy Governance model?

There are no other Policy Governance models. Of course, there is nothing new about the belief that boards should govern with policies. But Policy Governance is a service mark that can be used only in description of the complete, integrated conceptual paradigm created by John Carver. For reasons both ethical and legal, the term must be capitalized as done in this text. Thus there is no such thing as a board's choosing "among policy governance models." Informally, some use the term "Carver model" as a synonym for Policy Governance.

Are there situations or organizations in which Policy Governance is not appropriate?

Policy Governance was designed to be generic, so it should be applicable whenever a board faces the task of governing. The fundamental model does not require that an organization have a CEO, or even a staff, though these extensions of board authority make Policy Governance work better. The model does not depend on the organization's being a start-up operation or a mature one. And it is not related to whether an organization is for-profit, nonprofit, or governmental. We have certainly found situations in which Policy Governance is more difficult to implement. We have found that some types of organizations and circumstances impose idiosyncrasies on the way the model is applied. But our interactions with board members and executives in widely different cultures from several continents support our confident assertion that the model works well in any situation.

Since Policy Governance creates a powerful board, why would it be attractive to CEOs?

Policy Governance does, indeed, strengthen the governing role, but it does not undercut legitimate CEO prerogatives. For most CEOs in public and nonprofit organizations, executive authority will be greater under Policy Governance than under traditional governance. To be more accurate, however, whether the CEO is more powerful or not is a function of how the board has been operating prior to Policy Governance. If the board has been rubber-stamping everything the CEO wants done, then perhaps the CEO loses some power. If the board has been intruding into management, then the CEO gains some power. But Policy Governance is not about the board controlling more or less. It is about the board controlling the right things appropriately. So what can always be counted on under Policy Governance is that board and CEO prerogatives are far clearer and more rationally derived. Since the greatest source of stress for most CEOs is board behavior (as distinct from the straightforward pressure to perform), Policy Governance offers a more sane, even if more demanding, work environment.

How do we run two concurrent governance systems while moving toward Policy Governance?

You don't. You continue to govern as you always did until you are ready to use Policy Governance. Your board will be aware as it develops its policies that its new governance will result in the abandonment of much of the old system, and the sense of living in two worlds may well be bewildering. So rapid development of the new governance will minimize the confusion of having two approaches side by side. We caution you, however, not to change what you are doing until you are ready to change it all. Incremental governance change does not require this all-or-nothing care, but paradigm shifts—like the move to Policy Governance—are best made in this way. So once you have started the process of policy development, try to complete it as soon as you can.

Where do we begin, with policies about where we want to go (ends) or with policies about everything else (means)?

We strongly recommend that your board develop all its policies restricting the means choices of the CEO (Executive Limitations) and those describing its own means (Governance Process and Board-Management Delegation) before proceeding to Ends policies. You may find it odd to develop policies about means before determining Ends. We recommend this sequence because it enables the board to be clear about its own job and the jobs of its officers and committees, as well as to clarify the authority of the CEO early in the process. We have observed that boards traditionally fail to attend to Ends issues largely because they are so distracted by immediate means concerns. Further, completing means policies first allows the model to be adopted and put into use even before the board gives its full (and invariably more time-consuming) attention to Ends issues. When the board gets to Ends, it begins a job that remains its focus in perpetuity.

If it still seems illogical to make policy about staff means before having made policy about Ends, remember that in Policy Governance the board does not enact staff means policies that instruct the CEO how to accomplish the Ends. Instead, it enacts policies that prohibit some board-determined unacceptable means. In other words, it makes policy describing what *not* to do!

Just so we don't confuse you, we occasionally refer to Governance Process and Board-Management Delegation categories, taken together, as *board means*—as distinguished from staff means. Staff means, of course, are board-controlled by the use of Executive Limitations policies. We employ another convention as well: we use lowercase when we speak of "ends" as a concept or idea, but we capitalize the word when referring to the policy category, Ends.

Which means policies should be developed first?

Part Two of this book includes a chapter for each of the policy categories used in Policy Governance. As to policies that deal with staff means and board means (omitting Ends for a moment), we have arranged them with the chapter on Executive Limitations policies first, then the chapter on Governance Process policies, followed by Board-Management Delegation policies. There would be no problem with following exactly this order as your board proceeds through its policy development work. On the other hand, your board may wish to use a different sequence. Since none of the policies will come into effect until all three categories are completed, it really does not matter which of them is completed first. Your board may have its own preference.

Many boards prefer to start with Executive Limitations, since these cover the issues that boards are ordinarily most worried about. There is some logic to this. When things go embarrassingly wrong in organizations, staff means issues are usually involved. Your board may wish to establish these controls on the CEO early. But some boards elect not to work first on Executive Limitations—the only negatively worded policies—because they prefer to start on a more positive note.

A number of boards we've worked with prefer to deal with Governance Process policies first, since they clarify the job of the board. Like them, your board may wish to start by establishing the expectations that it will have of itself before moving on to instructions to the CEO.

Still other boards begin with a careful examination of the concept of CEO as it is used in Policy Governance. These boards start their policy development in the Board-Management Delegation section. If this is your board's choice, remember that it will have to leave one of the Board-Management Delegation policies incomplete (the Monitoring Policy) until Executive Limitations policies have been completed. That is because the Monitoring Policy sets forth the frequency and method of monitoring Executive Limitations and Ends policies, neither of which would have been created at this time.

Should we start from a blank sheet of paper?

Except for your work with Ends (which must begin from scratch), we wouldn't recommend it. You will find yourselves engaged in the deadly art of group writing before you know it! In fact, a major use of this book is to provide model policies that can be points of departure in developing your own policies. The policies that you will find in this book may not say what you need to say. They may exclude values that you strongly hold and need to include in your policies. But they are a model-consistent starting point. We suggest that when your board works on the policies that make the Policy Governance model a reality for your board, you work systematically through the examples we have offered, changing them to reflect the values that your board wants to express. You must follow the principles about policy format, which we discuss in the next chapter, but the content of the policies is for you to make value judgments about.

Is it true that ends are decided by the board and means by staff?

No. The board does make the largest ends decisions, but smaller ones (those of less breadth) are made by staff. Staff makes means decisions, to be sure, but those decisions are constrained by the board's broadly stated limits about those means. Further, the board—along with its officers and committees—decides the board's means entirely. So, you see, both board and staff make both ends and means decisions.

Our CEO says that because certain issues are "means," the board has nothing to do with them. Is this argument correct?

No. The board does not lose control of staff's means just because it stops prescribing and approving them. The board establishes policies that put certain staff means off limits and, therefore, outside the CEO's prerogatives. The CEO must be faithful to the limits on staff means the board has imposed—and prove it in regular reports. And, of course, the board's own means are entirely under its control. After all, governance itself is a means.

Should we hire a consultant to help?

Arguments can be made in support of either using or not using such help. First, you would need a consultant who really knows the Policy Governance model thoroughly—you'll get no help from one who doesn't. Since Policy Governance has achieved a measure of popularity, many consultants have begun professing expertise that they do not have. We recommend that you inquire carefully into where they received their training in the model's theory and implementation. The only fully qualified Policy Governance consultants are those who have completed the Policy Governance Academy, an intensive five-day training that requires considerable Policy Governance knowledge even for admission. Having attended a few seminars or taken a college course on Policy Governance will not suffice. Second, you need to be able to cover the expense—hiring a trained consultant is going to add to the up-front cost of the change process your board will go through. If the consultant is fully qualified, this help will almost certainly be worth the cost. However, a board that can take itself quickly through policy development may not need additional help. If there is a risk that your board will take months to develop its policies, it will be worth the cost to hire a consultant, for a properly trained person can guide most boards through most policies in two or three days of hard work. The larger the organization, the more the cost of consulting help is cheap insurance against faltering in the process of implementation. In any event, this book is designed for use with or without consulting help.

If we don't use a consultant, should the chair lead the process?

Anyone on the board who knows the model well can lead the process. Sometimes the chair is the person most familiar and comfortable with the model, but if this is not true for your board, don't use the chair as the leader of the process. It is useful to have a designated leader in the work of developing governing policies, but who that person is may not be important. Choose someone who knows the model well, who can help the board stay on track, and who can include everyone in value discussions. Then, having chosen your workshop leader, let that person lead.

Can the CEO be the leader?

Great care should be taken to keep the CEO's role separate from the role of the board. The board can delegate a great deal to the CEO, but to avoid role confusion, it should not give the CEO responsibility for any part of the board's governance. Still, if the person with the best knowledge of the Policy Governance model is the CEO, it may seem wasteful not to use the CEO's expertise. If you decide to use the CEO as your leader, begin by reaching an understanding that the role to be performed is one of facilitation only. The CEO should not influence governance decisions beyond making relevant information available. One option is for two or more boards to use each other's CEOs—providing, of course, that each of the CEOs is qualified. Just being a CEO, even a fine one, is not sufficient.

Should the CEO be present during the board's policy development work?

Yes. The CEO is a valuable resource, with a great deal of information that the board may need in developing its policies. Not to use one of the board's most valuable resources would be a shame. The CEO, however, should not be making, but simply informing, board decisions.

Should other staff be present during the board's policy development work?

The other staff work for the CEO. Let the CEO decide. The CEO will probably need the voices of other staff from time to time to contribute information that is relevant to the board's discussion. As you will see shortly, you will also need someone to take careful notes.

Shouldn't a staff member keep a record of the board's policy development?

As your board makes its decisions about policy content, make sure someone writes them down. After the work, a copy of the board's own version of policies can be prepared from the discussion. The person who writes down the board's decisions can be anyone on the board, the CEO, or—if the board chooses the CEO—the CEO can bring in a staff member to carry out this responsibility.

What happens to our current distinction between policy and procedure?

You no longer need it. It is a distinction left over from having no technology of governance and, in light of that, doing whatever you could to find some way to differentiate board work and staff work. A framework designed specifically for the board's job changes all that. With Policy Governance, only two distinctions remain: *type* of decision or policy—the four categories we discuss in detail in Chapter Three—and *size* of decision or policy. These are the only distinctions, and they make unnecessary any further worry about policy versus procedure, strategy versus tactics, policy versus administration, or goals versus objectives. To drag these old distinctions over into your Policy Governance practice will reduce your effectiveness.

We already have a number of policies. Will that give us a head start?

Unfortunately, in all likelihood it will not, except perhaps in a minor way. Develop your new Policy Governance policies as if you have never had policies or made decisions at all. We know that advice will sound wasteful of your time, but we can assure you that it will in fact save a great deal of time. Previous decision making by the board, in policy form or not, will have been undertaken in traditional ways. That means Policy Governance policy categories would not have been used, staff means would have been prescribed, the integrity of policy levels would not have been observed, and the CEO role may not have been construed appropriately. So by starting the policy development process from scratch, you can avoid having to untangle all those complications.

Only after you have completed your Policy Governance policy development should you refer to previous policies or decisions. At this point your new work provides you a model-consistent framework to which you can make additions or alterations. A previous investment policy, for example, may have resulted from careful and intelligent thinking about the safety of monetary instruments. Although the old policy may not have been worded in a way consistent with Policy Governance principles, the core intelligence in the previous work can be abstracted and applied to a new asset protection policy.

Should we do a little work at each board meeting, or should we hold a retreat?

We know boards that have decided to develop their policies during regular board meetings, putting aside perhaps an hour from the regular agenda to work on a few policies at a time. This may work for your board, but the approach has a number of drawbacks. First, its use means that implementing the Policy Governance model must take at least several months, during which time the board and the CEO must deal with the confusion of having two very different governance systems in their consciousness. Second, a traditional agenda that tends to focus on the emergent rather than the important can overwhelm a more conceptual approach, and it is not uncommon to see that the items put off until next time are the policy items. Consequently, we always recommend that the board set aside time for an intensive policy development retreat.

How long should the retreat be?

We have found that organizations not subject to great external regulation can complete their board and staff means policies in two or three days if they use a competent consultant. City councils, school boards, credit union boards, and boards of other organizations operating in highly regulated circumstances take longer to do their work, and we expect three days to be a minimum for board and staff means policy development to be accomplished. Without using a consultant, it is likely that all board and staff means policies will not be completed in the time even a long retreat can provide. Therefore, more than one retreat will be needed.

As important as the length of time is the presence of all board members during deliberations. The change being wrought in governance is so massive that board members not involved will face culture shock upon returning. We normally ask boards to secure a prior agreement from nonattending members to accept the policies developed by those who attend (unless they have ethical reservations about them). Otherwise, nonattenders exercise disproportionate control over whether the board moves ahead.

We have not made a final decision to use Policy Governance. How does this affect policy development?

We commonly work with boards in your position. The board is not yet ready to commit to using the model, but it goes through policy development as a way of finding out, What would it look like for us? For many boards, this is a strategy that makes sense, because drafting the policies provides a more concrete understanding of the model.

We would recommend that even if the board has not made a final decision, it should develop its policies as if it were definitely going to rely on them. Policies in Policy Governance, unlike in traditional governance, constitute all the board has to say. It is important to develop policies from the perspective that there is no second backup document somewhere. This thorough reliance on policies demands a more complete and more rigorously prepared policy product. Boards that develop policies as a mere exercise rather than for actual use will not enhance their ability to make an informed choice between Policy Governance and what they are already doing. If they were to subsequently decide for Policy Governance, the tentatively drafted policies would have to be deliberated all over again. What an unnecessary duplication of effort!

We have made a decision to use Policy Governance, but a few of our members voted against this decision and are unhappy with it. What should we do?

Deciding to radically alter a board's governance system is a big step. It is not surprising that some people do not agree that it is a necessary or desirable step. Assuming that all the board members present at the meeting when the decision was made to use Policy Governance had an opportunity to voice their points of view, then the decision is the board's decision. Good governance makes a distinction between the position of the board and the minority position of a dissenter or dissenters. It calls upon boards to expect their members to adhere to board decisions until they are changed by the board. It explicitly vetoes the use or attempted use of personal power over the organization by individual members of the board. In other words, in any matter, not just that of the governance system to be used, the board members who voted against the board's final position are duty bound to respect that position, that is, not to undermine or sabotage it. If they cannot do this, they should consider resigning from the board. The worst outcome is that a nonunanimous vote leads to a half-hearted pursuit of the decision. You may have voted 6-3 to use Policy Governance, but if it is to be successful, you must pursue it with the resolve of 9-0.

Wouldn't using one model alone be like putting all our eggs in one basket?

No. These are not analogous situations. Consistently using one model is like having all the little wheels and other components in your wristwatch make sense as a total system. There would be no value in your purchasing a few extra wheels not designed for that specific watch just to be on the safe side. It is the system-specific, uncluttered integration of parts that makes the watch work. Admittedly, the parts must actually work as a system, but even if they do not, the solution is not to throw more parts at the watch but to redesign the system.

Isn't this a one-size-fits-all model?

Yes, it is. The aim of generic theory is to be applicable across situations that are distinguished by individual differences. Disciplines such as medicine, engineering, and even management each depend on a foundation of universal principles. Family doctors understand the general functioning of kidneys and kidney medicines. This is fortunate if you go to your doctor with a kidney problem. It would be worrying if there were no foundational theory upon which the physician's judgment could be based. No one worries that this means we are not all unique people. Critics who complain that Policy Governance is a one-size-fits-all model will argue that all organizations are unique. We do not disagree. However, the indisputable uniqueness of all organizations does not imply that their accounting, human resource practices, and—yes, their governance, too—cannot be based on generic principles. The Policy Governance model does not describe all organizations; it describes an integrated set of principles guiding the most accountable governance of all organizations.

We could save so much time by just borrowing a similar organization's policies!

You could save time just as you could save a trip to the doctor by borrowing a friend's diagnosis! Board policies in Policy Governance are the board's soul. They do not contain all the values board members hold, but they do contain all the values that the board as a whole can agree it holds, along with all those necessary for proper governance of the organization. Not only does the policy product represent a compendium very personal to a specific board, the process by which the policies are developed is itself at the heart of board leadership. If you install some other board's policies, or if you have your staff write the policies so you can adopt them, expect Policy Governance not to work for you.

Let us give you a small proviso. If the other organization's policies are well constructed, you may be able to use them as we use policy samples in Part Two of this book. But to make this work, you have to go through all the steps of inquiry and soul-searching that your friendly benefactor board went through. To get Policy Governance off the ground, there is no free launch.

Policy Governance relies a lot on the CEO or board chair making "reasonable interpretations." Isn't this a lax and perhaps even risky leap of faith?

Actually, all persons giving instructions, including boards, have no choice but to allow delegatees to interpret their words. In any organization, thousands of decisions go on daily, all of which trace their origin back to more global board decisions. Policy Governance simply recognizes this unavoidable phenomenon and formulates a system in which the risk in interpretations is reduced. A board must be careful about the words it uses, just as all experts must be careful with their tools. Given that the board assumes responsibility for its words, the board chair and CEO in their respective domains can now move on as decision makers with confidence, knowing the board only expects reasonableness.

Naturally, if the board professes to give its delegatees the right of reasonable interpretation, it must actually do so or risk the loss of trust by delegatees. For example, if the board holds the CEO accountable for what the board wishes it had said or what it had in mind instead of what it actually said, then the board will have reneged on its agreement to accept any interpretation that is reasonable. Or if the board allows one board member's opinion (such as that of a treasurer or other expert) to be the only "reasonable interpretation" allowed, then it has similarly broken its agreement.

We have seen many instances of boards failing to implement Policy Governance well due to one hurdle or another. We have never yet found the rule about any reasonable interpretation to be a significant stumbling block. The rule contributes the same utility that the "reasonable person test" has made possible in law for generations.

Next Chapter

In Chapter Two, we review Policy Governance as a theory of board leadership. As we have pointed out, this book is not intended to be a theoretical text but rather a guide to practice. Consequently, our treatment of the fundamental principles of Policy Governance in the next chapter is brief.