



Exploring Policy Governance

Never doubt that a small group of thoughtful, committed citizens can change the world. Indeed, it is the only thing that ever has.

Margaret Mead

Exploring Policy Governance means visualizing an entirely different world of board operation—what it looks like, what it feels like, and what it produces. In this chapter, you are going to learn the basics of what Policy Governance is, how it works, and what you can expect to get from it.

This chapter aims to help you to help your board

- Understand what makes Policy Governance unique as a system for organizing board work
- Understand the basic theory and practice of Policy Governance
- Examine the benefits of Policy Governance

WHAT POLICY GOVERNANCE IS

Policy Governance is a complete system through which boards can conceptualize, organize, and fulfill their mandate. Like all systems, it has several component parts that work together to provide a complete approach to a particular job. A shorthand way of expressing the completeness of the Policy Governance system is to call it a *model*. Thus, in the literature *the Policy Governance model* or *the Carver model*, or sometimes *the Carver Policy Governance model*. Everything in the model fits together because it is an expression of the integrated theory and principles that underlie John Carver's work and that have allowed his approach to become the single most influential model of governance in the world.

Operating from a model that is based on an integrated theory is important in two ways. First, without a fundamental theory guiding your actions, practice will inevitably become haphazard and, ultimately, highly risky for all concerned. Of course, practice is essential, and many of us learn best through concrete experience. But unless practice is derived from theory and the experience derived from practice is used to further inform the theory, how can practice ever be truly practical? In any case, in the same way that it wouldn't be a great idea for a group to tackle a challenge without having some theoretical understanding of the nature of the challenge, it isn't a great idea to start governing without having established some theory about the nature of the board's job that makes sense to everyone. I have seen many boards descend into endless disagreement not because they aren't all wanting to do a good job but because they have no agreed-on theory about what the job is. I have seen many board members who have become apathetic, not because they don't care but because they have tired of trying to make a difference in the midst of confusion. I have seen many boards become totally stuck on board and CEO evaluation issues because they have no agreement about what good performance looks like.

The second reason for operating from a model that is based on a theory that integrates all board work has to do with efficiency. By definition, the value of working from a complete model rather than from a collection of best practices is that all the parts of a model are specifically designed to work together. For example, when you are flying in an airplane, driving a car, or riding a bike, you know that you need all its components to be working together in order to get you safely to where you want to go. Similarly, when you are governing an organization, you need to be sure that as far as possible, everything you are doing is working together to get your organization going safely to where you want it to go. Boards are complex mechanisms involving the energies of chairs, board

members, CEOs, staff, and external stakeholders. With a complete model, everyone's role, purpose, and practices can be aligned toward the same ends. Without a complete model, people usually find themselves and their practices pulling in different directions.

Everything about the Policy Governance system aims to help boards enable their organization to achieve their goals as efficiently and effectively as possible. This book aims to help you understand and use that system to best effect. One device that I will use in this book is the creation of analogies, for I believe that in likening the unfamiliar to the familiar, analogies can often be helpful in developing understanding of something new. It's helpful to think of Policy Governance as a vehicle that your board can use to get where it wants to go. In particular, let's observe some important points by examining how using Policy Governance is like riding a bicycle:

- Like a bicycle, Policy Governance is a vehicle, a means of getting wherever you choose to go. It is not a destination.
- Walking and riding a bike are two entirely different modes of travel. Similarly, governing with traditional tools and governing with Policy Governance are two entirely different modes of operation.
- Riding a bike, like using Policy Governance, does not feel natural before it is learned, but once fully experienced, it is never forgotten.
- Learning to ride a bike, like learning to operate through Policy Governance, requires having the courage to *entirely* let go of one form of control in order to gain a different form of control.
- Once you have learned to ride a bike, you can ride any bike to any destination. Similarly, once you have learned Policy Governance, you can use it on any governing body.

As with any new skill, mastery of bicycle riding—and of Policy Governance—is a function of practice.

ACCOUNTABILITY TO OWNERSHIP: THE THEORY THAT DRIVES POLICY GOVERNANCE

In the same way that the benefits of cycling are the result of all a bike's component parts working together, the benefits that Policy Governance offers are the result of the careful creation of a complete system. Policy Governance starts with

a theory. This theory drives certain understandings about the board's job, which eventually translate into movement toward the organization's goals.

Ownership: The Power Behind Your Wheels

The theory or belief that lies behind Policy Governance is that organizations exist to fulfill their owners' purposes and that boards exist to represent those owners. Therefore, Policy Governance theory asserts that the power that propels any board forward should be its interpretation of the best interests of the owners of its organization.

Given that board power is owners' power, it follows that clarity about who an organization's owners are is fundamental. For corporations and their shareholders, as well as for membership associations and their members, the meaning of *ownership* seems obvious. For many nonprofit and public organizations, however, it is often not at all clear and, therefore, needs to be defined by the board.

Policy Governance theory positions ownership as both a legal and a moral issue. Legally, your organization's owners are the people who, according to your bylaws, have the right to vote at general or special meetings of shareholders or members. However, your board can also choose to define a much wider moral ownership that includes everyone to whom it feels it should be accountable, which might include many others whom your board sees as actually or potentially invested in your organization's long-term future in some shape or form. For example, the board of a food bank might well have a legal ownership that consists of board members alone but decide to operate as if it were accountable to either its entire local community or a subset of the community such as "all those who care about poverty."

A board can only begin to truly govern if it can identify its owners—the people on whose behalf it is governing. And they must not confuse owners with other stakeholders such as customers and employees. A board that sees itself as governing on behalf of its owners will collectively shoulder responsibility for the proper care of its organization in the interests of *all* current and future beneficiaries. A board whose members see themselves as individual representatives of particular interests will not.

The significance of ownership will be explored in far more detail in Chapter Three but is summarized in the following list:

Owners are . . .

- the source of the board's authority
- the people to whom the board is accountable

- a touchstone for and ultimate legitimizers of board decisions and actions
- a force for unifying the board in common cause
- the most likely source of future board leadership
- essential for stability and sustainability
- a protection against warring self-interests
- concerned about the care of the overall organization

Accountability: The Chain That Brings Power to Your Wheels

Having identified owners' best interests as the power that you should be using to drive your wheels, you need to connect that power to the wheels that can move your board and your organization forward. Policy Governance is designed to provide that connection through a chain of accountability, as follows:

1. The board as a group must connect with and be accountable to the source of its authority: its owners.
2. The board must interpret its owners' best interests in order to define what the organization is for and how it should operate.
3. The board must ensure that the organization performs according to its interpretation of its owners' best interests.

VALUES INTO ACTION: THE WORKING PARTS OF POLICY GOVERNANCE

Having created the chain of accountability that connects the power of your owners' best interests through your board to your organization, you have to actually turn the wheels and go. In other words, you have to put the theory into practice. This brings us to what we might call the “moving parts” of Policy Governance—the components that make the organization move. These components, essentially, are actions that the board needs to take.

Define the Difference Your Owners Want to Make

The Policy Governance system starts from where owners start—that is, from an overall perspective in which the organization is merely a vehicle for delivering the benefit that they seek. As the owners' representative, your board's main purpose is to ensure that what owners want their organization to produce gets

produced. In other words, what matters to boards about the organizations that they govern are the external impacts they make, not the means of making them. This does not translate into saying that boards have no interest in means at all. It does translate into saying that if boards fail to keep everyone's focus on the reason for everything they do, the doing will quickly go awry.

To put the Policy Governance system into practice, boards have to identify the difference their owners want their organization to make, not in terms of what the organization is going to do but in terms of the impact it is going to have on people's lives. This involves answering three questions:

1. What benefits should your organization produce?
2. For whom?
3. With what cost-efficiency?

In the Policy Governance system, the answers to these questions form your organization's *Ends*. Whether you call them *Ends* or something else really doesn't matter as long as you have answered all three questions at some level.

You will find a lot more on Ends in Chapter Five. For now, the important things to understand are that Ends are essentially what you want your organization to achieve and that whereas most boards typically address this issue by creating a mission statement and approving a strategic plan, in Policy Governance, boards are asked to be more rigorous. Answering the three Ends questions is not easy, but unless they are clearly answered by the board, the organization will, to some degree, be rudderless and its accountability therefore hazy.

Assign Responsibility for Making That Difference

The next step in the Policy Governance system is for the board to determine who it is going to make responsible for achieving its Ends. In doing so, it is obliged to recognize that it remains ultimately accountable to its owners for everything, including Ends accomplishment, whether or not it delegates responsibility to others to get the work done. Most boards choose to operate through a chief executive officer (CEO) as the sole connector between the board and management, and the remainder of this book assumes that choice. Other possible choices are discussed on pages 139–140 in Chapter Seven, and the board chair's role is discussed briefly later in this chapter and at greater length in subsequent chapters. Having an intact chain of accountability in which everyone is clear about who

has overall day-to-day responsibility for getting the Ends accomplished (whether or not that person—or those persons—further delegate elements of the job) is an essential component of the Policy Governance system. Having a CEO is not.

Limit the Authority That Goes with the Responsibility as Minimally as You Can

To accomplish your Ends with the greatest possible velocity, your CEO needs to be free to take the quickest route available at any time, unless doing so would put the organization in ethical or legal jeopardy. In the Policy Governance system, the board's ethical and prudential limits are typically called *Executive Limitations* but can be called whatever your board decides as long as they always address things that cannot be allowed rather than how things should be done. Chapter Six gives more detailed information about creating Executive Limitations.

Put Everything in Comprehensive Yet Concise Written Policy

Your board members might currently think of policies as rules, standards, guidelines, or principles. They might also think of policies as procedures that set out the way you do things or as a framework for the way you do your work. If you are a political party or government, you might also think of policy as the high-level plan or course of action that lies behind your legislative decisions on a particular issue. There is no one definition. *Policy* is a word that is used in many different ways. Policies in the Policy Governance system are values specifically designed to enable your board to be accountable for everything about your organization. The design has three elements.

First, the policies need to be *written* because owners' authority has been given to your board as a group and, therefore, unless you will be meeting in permanent session, you need a form of control that works whether or not you are all in the building. Concretizing or codifying your control in agreed-on written policies—a permanently accessible set of instructions—is the answer.

Second, board policy must also be *comprehensive* if it is to cover everything that the board is accountable for, which is, indeed, everything! In the Policy Governance system, the board's policies are divided into four categories that, between them, cover all possible board concerns. The first category is typically called Ends, as described earlier. The second category is typically called Executive Limitations, as described earlier. Together these represent the entirety

of your board's instructions to your CEO. The remaining policies are your board's instructions to itself. As such, they could be combined in one category. However, for the sake of clarity, they are typically divided between a category called *Governance Process* and another called *Board-Management Delegation*. You can find more about alternative names for the four policy categories on pages 77–79 in Chapter Four.

Third, an essential component of the Policy Governance system is that policy in each of the four categories is *created from the broadest to the narrowest level of specificity*. Here's why: if you think about the number of policies any given board could have in the four categories, your head is likely to start spinning. John Carver, the originator of Policy Governance, once memorably remarked that “brevity is the unsung hallmark of leadership.” And you can see his reason. After a certain point, too much policy means less control, not more. Unless you have the time and expertise to manage the number and complexity of the policies you create and unless you can reasonably afford the cost of monitoring them, you may certainly have policies but you certainly will not have *policy control*.

The Policy Governance system makes brevity possible by requiring you to create policies in each of the four categories from the top—in other words, from the broadest ownership viewpoint rather than from the viewpoint of someone working within the organization. By *broadest*, I mean that your policy in each category must start with a statement that encompasses everything you want to say in that category, so that no part of your accountability is left out. The first policy you create in each category therefore covers every possible further topic within that category at the most inclusive level.

For example, in the Executive Limitations category, when you address your CEO's means, you will probably want first to create a broad statement that ensures that your CEO will not compromise your organization's legal, financial, or ethical health.

Thereafter, your board will create further policies, progressively narrowing the range of options for interpreting policy until you are satisfied that you can safely leave further interpretation up to your CEO. You will find further explanation of the concept of defining policies from the broadest to the narrowest in Chapter Four.

Delegate Within “Any Reasonable Interpretation”

At the point when your board members decide that their policies say all that is needed in order to fulfill their obligation to owners, those to whom the board has

delegated the responsibility for fulfilling the policies can get going and keep going as long as they are operating within those policies. “Operating within those policies” means something very specific for delegates in the Policy Governance system. It means that they must always be in a position to prove that they are operating within any reasonable interpretation of their board’s policies.

As noted earlier, your board’s delegate with respect to fulfillment of your Ends and Executive Limitations policies is typically your organization’s CEO, whom you may call your *chief executive*, *managing director*, or any other title. With respect to fulfillment of your Governance Process and Board-Management Delegation policies, your delegate is likely to be called your *chair*, *president*, or, as suggested by the Carvers, *chief governance officer* (CGO), which is the title that will primarily be used in this book.

Thus, the Policy Governance system enables a very clear distinction between the CEO and CGO roles. Each person has their own domain of interpretation. Your CEO has the right to make any reasonable interpretation of your Ends and Executive Limitations, and your CGO has the right to make any reasonable interpretation of your Governance Process and Board-Management Delegation policies. Both lead in their own domain, and both are free to play their role to the full as long as they are operating within any reasonable interpretation of what your board requires of them.

Be Sure You Are Making the Difference Your Owners Want

Policy control is only real if your policies are used, and you can’t know that they are being used unless you monitor them. To use the Policy Governance system, your board will need to establish schedules for regular monitoring of each of its policies and for regular CEO and board evaluations based on that monitoring. Monitoring policies will be discussed in depth in Chapter Seven.

So there you have it—a brief overview of the Policy Governance system. If you would like more information, refer to the list of Policy Governance resources at the back of this book. For now, let’s look at the benefits of using Policy Governance.

THE BENEFITS OF USING POLICY GOVERNANCE

So what could your board get from using Policy Governance? Going back to the bike analogy, none of us would have bothered to learn to ride unless we saw the benefits of doing so. But we did see those benefits. We saw our friends using their newfound freedom to move with velocity to wherever they chose.

We saw the pleasure and satisfaction they were getting along the way, and although we had no idea what the feeling of being able to ride was, we knew we wanted to master it, too.

Although it is true that some boards become interested in exploring Policy Governance because they find themselves in some sort of difficulty, many boards explore Policy Governance simply out of an interest in seeing whether it can be a means of improving their performance. In other words, exploring Policy Governance is not necessarily about *needing* something; it is about seeing whether something more is possible.

Especially since the publication of John Carver's *Boards That Make a Difference* in 1990, boards of all sorts have been working with Policy Governance. The benefits they have gained have yet to be academically researched (see page 28 in Chapter Two), but they have been studied through reviewing the experience of eleven organizations in *The Policy Governance Fieldbook* (Oliver and others, 1999) and experienced firsthand by a growing body of board members, executives, and professional consultants, including, over the last fifteen years, me. The following picture of the benefits that boards can obtain from using Policy Governance has emerged.

Become a Real Leadership Team

Imagine your board as a real leadership team. Using Policy Governance would require your board to establish a set of common beliefs about who you all work for and what you should be doing on their behalf. Through that process, you can become a forward-thinking, proactive team that focuses your organization on its long-term purpose and results. It no longer matters how each of you got onto the board because now that you are there, you all have the same job to do for the same people. Your diversity, instead of pulling you apart, becomes a valuable asset for better decision making on behalf of all the people you collectively represent.

Get Where You Want to Go

If you don't know where you want to get to, you definitely won't get there. Using Policy Governance, your board will become crystal clear about where it wants your organization to get to. You won't be managing day-to-day matters. You will be deciding how people's lives should be changed as a result of your organization's existence. Maybe children will be safe from harm. Maybe people will breathe clean air. Maybe financial investors will get a particular return on

their investment. Maybe members of your trade association will have the conditions needed for their success.

Get There Faster

Policy Governance offers a quantum leap in board effectiveness, a leap made possible by a governing system that ensures that an organization has a crystal clear direction *and* the freedom it needs to move in that direction with maximum velocity while complying with appropriate standards of ethics and prudence. Thus, you can visualize the experience of sitting on a Policy Governance board as being much like the experience of riding a bike. Once you have mastered Policy Governance, you know that you can steer your organization where you want with a minimal shift of the steering wheel, and the only thing that need slow you down is the occasional application of your brakes for safety. In other words, Policy Governance offers the possibility of fulfilling your ends as soon as possible within reasonable bounds of safety.

Have the Control *and* the Freedom You Need

Your board needs to be in control—to pin things down, to measure, question, and assess them. But your board also needs to give itself the space to explore and create the future and give your CEO and staff the freedom to use their talents and skills to fulfill that future. Policy Governance offers the possibility of achieving an optimal balance between freedom and control—between vision and compliance, between understeering and oversteering.

Your control will be leveraged through grounding everything about your organization in a firm, clear, consistent, comprehensive but brief policy framework that guides everyone through good times and bad. The space for your board and your staff to create and fulfill the future will be made available through efficient board process and clear, safe delegation.

Be Clear About Who Does What

In a hospital operating room, being clear about who does what may make the difference between life and death. The consequences of role confusion in your organization may not be as obvious or dramatic as they are in an operating room, but there are consequences, and they aren't good. Using Policy Governance will give your board the ability to separate governance and management issues so that your board and your CEO can move forward powerfully—individually and together.

Know How Well You Are All Doing

Does your board know whether your organization is making more of a difference today than it was making a couple of years ago? You may know whether the organization is busier, and you may know whether you have more staff, but until and unless you know whether you are making more of the kind of difference that you want to make, you cannot jump to any conclusions. Using Policy Governance will give your board clear and common benchmarks for success and safety that can be used to evaluate board and CEO performance.

Be Seen to Be Great

Your board is no doubt acutely aware of the ever-increasing expectations of governance regulators and commentators along the lines of “boards must do better.” Maybe your board has also noticed the lack of practical suggestions about *how* boards are supposed to meet these increased expectations. Currently, Policy Governance seems to be unique in setting out a comprehensive set of practical steps that every board can take to fulfill its mandate. This book will set forth those steps in detail in subsequent chapters.

With Policy Governance installed, your board will be able to readily demonstrate governing excellence to regulators and stakeholders alike; transparency, foresight, and accountability will be the hallmarks of your leadership.

MOVING ON

Policy Governance is not complicated or hard, but it isn’t automatic, either. In the same way that riding a bike seems entirely unnatural until you know how to do it, using a governing system that requires letting go of your previous ways of doing things can seem a bit alarming. But however many hours you may spend on a tricycle or with training wheels or with your dad holding onto your bike seat, one day you will have to let go of those things entirely if you are going to become the rider of your bike. Similarly, learning about Policy Governance is a long way from actually using Policy Governance; the problem is that in order to make it work, you will have to stop doing what you have been doing and actually use it. The next chapter is about helping your board to decide whether it wishes to use Policy Governance, which involves looking more closely at the gap between traditional board practice and Policy Governance and at what might enable your board to decide to take that leap.