The Governance Coach™

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REALBoard™ Advisor

R—RESULTS-FOCUSED E—EXCELLENT A—ACCOUNTABLE & LINKED TO OWNERS L—LEGACY-CREATING

Policy Governance® – It's Not Rocket Science

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Editor's Note

We struggled for some time writing a catchy title for this issue. "All about Policy Governance®" – not actually true. "Everything you wanted to know about Policy Governance but were afraid to ask" – but Policy Governance isn't socially taboo or scary. "To PG or not to PG – that is the question!" However that wasn't it either. We think using Policy Governance should always be considered.

This issue is directed to those of you for whom Policy Governance may still be a mystery, and we wanted to reassure you that the model is approachable. Finally, it came to us! Though it takes a great deal of discipline and some concentrated work to apply Policy Governance, it's not rocket science!

We've presented you with some getting started articles to help you understand why thousands of boards across the globe have adopted this system of governance. When thinking about your own board, why not check out our Board Practices Profile™? It's an easy tool for a quick check of your own board function and it's free to submit to us for an assessment. See page 8 for more information in a short article by Jannice Moore.

For those of you already using the model, this issue is a refresher on the principles, why it's critical to use the whole system, the cost of poor governance, and some of the excuses boards make about why not to use Policy Governance. Most importantly, you'll be reminded how using the Policy Governance model has helped you to make a difference in your organization.

As the year 2017 approaches and we turn our minds to resolutions and new beginnings, may we suggest to all board members that effective governance be among them.

On behalf of all the Consultants and staff at The Governance Coach™, we wish you a

Happy New Year!

Marian

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Journey of a thousand miles begins with a single step...

– Lao Tzu

WHY BOTHER HAVING BOARDS?

by Joseph Inskeep

Now there's a question: why bother? For example, why bother having boards? Thankfully, the vast majority of people don't start their day confused by this wringer. But if it happens to you, we want you armed with good answers so you can get on with the rest of your day.

Let's start with the *raison d'etre.* Boards exist to ensure that a representative of ownership, one with strong allegiance to the owner's interests, actively oversees the organization. The need for this arises whenever the organization's owners are separated from management. We know that owners are often distant and largely unengaged with their firms. How much do we know about the firms in our 401K's or RRSPs? Most of us don't even know which firms are in the portfolio. Are members of the Canadian Civil Liberties Association able to stay abreast of the internal workings of the organization? Surely the majority are not.

When we as owners can't be "on site" ourselves, we need a representative to be engaged on our behalf. That is job one for the board: to be a high fidelity link between ownership and management. We can divide that job into its two main contributions: to set direction and to protect. Here's a look at each of those key functions.

Direction-Setting

Organizations will inevitably move in some direction, either pulled by objectives or pushed by circumstance. In the ocean of all that is possible, where should the organization go? It is the board that identifies the destination.

Interestingly, in this sea-going example, boards don't navigate. The CEO may decide to go east to bypass heavy weather or tack west to resupply before crossing open water. However, those are management choices in support of ***how*** to get to the right place. The destination itself is the board's to define.

That involves the board in making a set of "directional" decisions. In Policy Governance® these decisions are expressed as Ends policies. They name in concrete terms the benefits the organization is to create, the recipients who should receive them, and the relative worth or priorities among benefits and recipients.

This is a "results-focused" way to clarify the destination, and it requires the board to consider the world outside the organization. Who do owners want the organization to serve? How are their needs changing? What trends impact who we serve and the benefits we seek for them? John Carver, creator of the Policy Governance model, asserts the deliberation that results in good Ends decisions is the most important work governing boards must undertake. It is inspired leadership based on defining the organization's overarching values. It involves the board in continual learning and strategic foresight to clarify its place in a preferred future.

Protection

The second board contribution is protection. Every day the press reports on organizations that have lost their way and run aground, to the damage of image, mission, investments and lives. Most of these outcomes could have been avoided if the risks had only been identified and managed.

On behalf of ownership and society, the board is obligated to provide a reasonable level of care and oversight. These obligations are defined as the board's fiduciary duties. Policy Governance clarifies how the board can fulfill these obligations. Unacceptable conditions and situations are named and put off limits. It's the board's version of a "don't do this" list that actually identifies the organizational risks. Since the CEO is constrained from allowing these unacceptable conditions to arise, the policies that name them are called Executive Limitation policies. They limit the CEO from allowing the ship to sail into these risky waters. These Executive Limitation policies always address issues of ethics, prudence and law.

Assurance

It is one thing to develop a robust, forward thinking and carefully constructed set of policies that both guide and protect the organization and its many stakeholders. It is quite another to ensure that each of the policies is being implemented. This brings us to a third critically important deliverable. The board is accountable to owners and society to ensure that the right results are being achieved and that the unacceptable things aren't happening. In Policy Governance the board performs this function through robust, ongoing monitoring of Ends and Executive Limitations policies.

> "Job one for the board is to be a high fidelity link between ownership and management."

Why do boards exist? They are not constituted to sit above or at a distance making policy pronouncements. They are there to be the active link between owners and management, insuring the right benefits are brought into the world and that, in the process, the organization and its stakeholders are protected from harm. That's it in a nutshell.

Governance issues are exactly as old as organizations, but they have been largely ignored until the last few decades. If the 19th century was a time of entrepreneurs and tycoons, and the 20th was the century of management science, maybe the 21st century promises a much greater focus on governance legitimacy and effectiveness. Bob Tricker[1] believes it; so does John Carver. We've seen signs of it already, not the least of which is the Sarbanes–Oxley Act of 2002, the IPGA's Certified Policy Governance Professional Program[2] and recent discussions about an international ISO standard for board governance. It is catching on that we should bother having boards, and effective ones at that.

Governance is not only an important job; it's a big job. It requires board members to roll up their sleeves and do meaningful work. So let's encourage our fellow board members to better understand the job of board governance and adopt effective systems that support their success.

[1] Bob Tricker, *Corporate Governance: Principles, Policies and Practices*, Oxford University Press, 2009, pg. 8

[2] https://policygovernanceassociation.org/events-and-conferences/172-policy-governance-professional-program.html

WHY USE POLICY GOVERNANCE®?

by Richard Stringham

As a comprehensive, universal governing system, Policy Governance is unique among all other governing approaches. However, uniqueness is not a qualification for solving an organization's governance needs. The more important question is, "Why should we use Policy Governance?" What are the benefits of Policy Governance?

Benefits for Owners

Let's look at benefits through the lens of the organization's legal and moral owners. I'm a moral owner of several organizations in my community. Frankly, I haven't the time to carefully watch everything they're doing and weigh in on their options for decisions they need to make. I expect that the governing board is doing its homework and making informed decisions on behalf of the ownership, including me. However, I also expect they are making those decisions with the values that I and the rest of the ownership hold for the organization.

Collective Owners Values and Perspectives are Reflected

Boards that use Policy Governance know they need to be in an ongoing dialogue with sufficient members of their ownership so they can collect a fair representation of the diversity and pervasiveness of the owners' values.

When making policy decisions, these same boards are conscious that their policies should reflect what they have learned of their owners' values. This results in the values and concerns of ownership becoming embedded in the organization's upper-level decisions.

Owner-Desired Results are Achieved

As an owner I would expect the organization to effectively achieve the intended outcomes for the intended recipients and to do so efficiently. Doing anything less short-changes not only those intended recipients but also the ownership. Policy Governance not only requires operations to achieve these outcomes, but it also establishes an effective and efficient system for connecting the owners' values and concerns with the organizational outcomes created by employees and volunteers.

Owners are Informed

As an owner I would also expect the board to advise me with regard to what it has heard from the broad and diverse ownership, how it has integrated that perspective into its decisions, and to close the loop by informing me as to how well the organization has achieved those intended outcomes.

Benefits for the Board and CEO

Intriguingly, these benefits for the ownership also benefit both the board and the CEO.

Role Clarity

Clarity of roles is a hallmark of Policy Governance. A unique process of delegating authority and accountability to the CEO, board officers, and board committees minimizes confusion, unproductive duplication, gaps in responsibilities, and all of the associated frustrations.

Clarity of Expected Results and Boundaries

Boards that use Policy Governance are keenly aware that each of a superior's commands are open to further interpretation, regardless of how much conversation has taken place in determining the command. Consequently, they develop policy to the level of specificity at which the Board is ready to accept any reasonable interpretation. In following that discipline, the board moves away from the inefficient and unproductive practice of expecting its subordinates to play "Mother may I."

Comprehensiveness Coupled with Brevity

The unique policy architecture of Policy Governance enables the board to put its arms around the entire organization, in a way that creates a manageable amount of content for the board. Developing policies in sizes beginning with the broadest policies in each of the four policy categories, and moving to more specific policies until the board is ready to accept any reasonable interpretation creates a relatively short set of policies that address almost every instruction the board needs to provide.

Rigorous Accountability

Given a finite number of clear and succinct policies, the board can require regular, rigorous monitoring of each of its policies creating a blanket of accountability. (Try doing that with a 200 page policy manual!)

Enables Operational Creativity and Responsiveness

The combination of reasonable interpretations, the unique policy architecture, and rigorous monitoring enables the board to safely empower the CEO by placing boundaries describing what would be unacceptable for operational performance rather than describing how the CEO should operate. This enables both empowerment and flexibility. The CEO can efficiently and nimbly respond in the event that plans aren't working, the environment has changed, or the organization has acquired different capabilities.

Smooth Transitions

Governing via a comprehensive set of policies also enables smoother transitions both at the board and at the CEO level. A comprehensive set of policies codifies the cumulative wisdom of the board. As board members change over time, the wisdom of previous boards is not lost, although the current board has the latitude to amend policies as needed. The board's commands (policies) need not change for a new CEO, although the board may monitor more frequently.

The Board's Value-Added

Fiduciary Responsibility Plus . . .

Protecting the organization's assets and avoiding unacceptable conditions and behaviour is necessary and, when applied with discipline, the policy structure, delegation methods, and monitoring system enable the board to fulfill these fiduciary duties efficiently as well as effectively. Where could the board add more value with the time thus gained?

Clarity About Organizational Results

Many boards focus on what their organizations should be doing without clearly stating what their organizations are for! In contrast, boards using Policy Governance focus on what effect the organization should produce, for whom, and what those effects are worth (efficiency and priorities). Policy Governance calls these "Ends" policies.

Ends policies describe the future that the organization will shape. This future is external to the organization because, quite simply, organizations don't exist for themselves! When boards determine these statements of the intended future, they are adding the greatest value that can be brought into the organization.

Strategic Foresight

Even better, the time freed up by a system that is clear on the fiduciary duties and the mechanisms to efficiently address those duties makes space for boards to regularly explore the future more deeply and broadly than if they are constantly making management decisions. The board has time to think strategically and exercise strategic foresight. This is the biggest long-term pay-off of using the Policy Governance system.

We opened with the premise that the board, on behalf of its ownership, should be ensuring that the organization is achieving results in an effective and efficient manner that reflects the owners' values. The Policy Governance system not only enables achievement of those external benefits, but also creates internal benefits for both the board and the CEO. When the system is fully applied, Policy Governance enables the board to better apply itself to creating the most value that it can: owners' values translated into results.

SHINGLES, SYSTEMS AND GOVERNANCE

by Andrew Bergen

Some time ago, we had the shingles replaced on our home by a new company in our community. When we received the invoice, we considered that everything must have been completed to the appropriate standards in order to keep the water outside rather than inside. It seemed to work. That is, until the wind started blowing from a particular direction during a rainstorm – months later. We attempted to get in touch with the company, but alas, we fell victim to the "fly by night" scheme. The company no longer existed and we had no recourse.

So we attempted to fix things ourselves. I thought we had been successful several times. In fact, the rest of that first summer the roof kept us dry during several rainstorms. But next spring arrived and sure enough, during the first rain of the season, the wind blew from that same, fateful direction and the water came in again. The nearest I could determine, the water was coming in from somewhere around the chimney.

I'm not much of a roofer. I know a little bit about construction and have even helped a crew shingle some houses in the past. However, I don't understand the entire system of roofing. My piecemeal attempts at creating a dry house were completely ineffective.

During the last rainstorm, as the roof leaked again, we called a company in town that had been here for a long time. Within half an hour, they had someone on our roof and successfully repaired the problem. That shouldn't have been surprising to me. We found someone who understood not only the way the shingles must be laid, but also how they interface with flashing around chimneys and such. We needed to ensure the whole system had integrity.

A system is described as "a set of connected things or parts forming a complex whole." This means that each of the parts is part of something larger. Furthermore, it also implies that whatever that "something larger" is could not exist – or operate – without all of the smaller parts.

Policy Governance® fits this definition of a system. There are ten key principles that form the Policy Governance system and the removal of any one of these principles will result in the entire system not functioning to its potential – or not functioning at all.

We have seen many boards that claim to have adopted Policy Governance but have chosen to modify – or discard – parts of the system. This is usually because they have failed to understand the nature of the system, failed to see the importance of a principle, or not recognized how to customize the system to fit their unique needs without compromising the principles. When their governance system runs into trouble, we have heard these same boards claim that Policy Governance does not work. That's a bit like stating, "architecture doesn't work" after I've chosen to install shingles without benefit of understanding the roofing system and find that my roof is leaking at the first sight of rain.

Wikipedia states, "Human-made systems are made to satisfy an identified and stated need with purposes that are achieved by the delivery of wanted outputs. Their parts must be related; they must be 'designed to work as a coherent entity' – otherwise they would be two or more distinct systems." (https://en.wikipedia.org/wiki/System)

Boards that apply Policy Governance with this understanding of system - a complex whole of integrated parts – will find success. The system is deliberately designed with the purpose of the board in mind. **The board exists,** not for itself, but to ensure results are achieved **on behalf of someone else** (the "moral owners") – those for whom the board holds the organization in trust. The **board is the connecting link** between the owners and the management.

A focus on the achievement of desired results is another paramount principle. The clear **statement of intended benefits for defined beneficiaries at a specified cost or worth** (called Ends) is a key contribution of the board. The remaining principles of Policy Governance are designed to help the board achieve its purpose.

In order to achieve clarity of direction towards that purpose, boards **speak "with one voice"** through written policies. These **policies are deliberately crafted**, starting with larger values, and then moving systematically to smaller level values.

Policy Governance boards **define limits** around conditions or activities that the board would find unacceptable for reasons of prudence or ethics – even if they worked to achieve the Ends. They **clearly delegate accountability** for achievement of the Ends to the CEO, again using policy to describe that process. The CEO is then empowered to use **any reasonable interpretation** of the board's policies, determining the most appropriate means to achieve the Ends, within the board-stated boundaries.

Having delegated achievement of the Ends to the CEO, boards do not then fade into the woodwork. They **rigorously and systematically monitor** both achievement of the Ends policies and compliance with the limiting policies to ensure continued compliance with Board stated values. Monitoring requires diligence and can be challenging. However, ignoring this principle leaves the organization open to unacceptable risk and potential failure.

Finally, the board crafts **policies describing its own processes and behaviour,** consistent with the principles noted above. The result is a complete system of individual parts designed to function as a whole. A more detailed description of these principles can be found on our website, in a document titled "Policy Governance® Source Document".

Boards have a fiduciary responsibility for the organization they hold in trust on behalf of the owners The best way to fulfill this accountability is to ensure the whole system is in place, a system defined by the ten principles referred to above. To neglect any principle risks the proverbial rain pouring in through the cracks and damaging the effectiveness of the organization.

WE WANT TO MAKE A DIFFERENCE! LET'S GET STARTED!

by Paul Zilz

As a board member, you may be frustrated with any number of issues: How your board uses its meeting time, how your board evaluates your Executive, how your board responds to staff program requests, how your board directs the financial conditions and activities of the organization including budgets, how your board never seems to get around to evaluating its strategic direction, and many other possibilities. Perhaps you want to understand the actual impact your organization is having to ensure it actually achieves real results for the people it intends to benefit and you want to ensure that the means used to achieve those results are not imprudent or unethical.

If so, why not begin a dialogue within your board about how Policy Governance® could help you govern to enable your organization to make the difference it seeks to make! What's involved in this journey to governance excellence? How do you get started? Our consulting team has refined a process, based on many years' experience, to take your board from where you are to where you want to be. Let's look at the steps.

The Clarity Consultation™

When embarking on this journey, your board will want to develop an understanding of and appreciation for what constitutes effective governance. You will want to understand how the principles of the Policy Governance system support effective governance. In light of these principles, you will be able to assess the extent to which your current approach leads to effective governance and contrast it with the Policy Governance system. In order to improve the effectiveness of your discovery and evaluation process, you should incorporate the following three components:

Shared Learning: It is critical that your board engage in a period of shared learning about the Policy Governance system and the new behaviors required by this governance system. Let's break this down into three critical points:

1. As noted in Andrew Bergen's article, Policy Governance is a system that incorporates ten integrated principles. While certain governance approaches may incorporate several of these principles, if the approach does not incorporate all ten principles, then the approach simply is not Policy Governance or the "Carver model." It is important the board learn what these ten principles of Policy Governance are and how they are inter-related. Such learning will help the board gain crucial insight into the potential power and effectiveness of Policy Governance in creating an owner-accountable, future-focused, and results-oriented governance system.
2. It is important that the board share this learning. While one person may lead the exploratory process, it is essential for shared commitment and "buy-in" that all board members engage in the learning process together and participate in the discovery process. This is the start of a cultural change within the organization that promises to identify and achieve the right results for the people the board intends, and that the cost of those results is worth the resources expended. (As noted in other articles, this results - people - worth triad is referred to as Ends.)
3. The ten principles have significant impact on the way the board conducts its business. Policy Governance reflects a paradigm of accountable delegation that may be new to your board members. Policy Governance requires robust self-discipline on the part of the board and a clear understanding of its role in the organization. For example, pre-approving actions through policy versus rubberstamping or approving actions on an ad hoc basis can be initially disconcerting to a board. Such discipline and clarity about the board's role can leave a board with a renewed sense of purpose while also feeling a bit overwhelmed and unclear regarding how to proceed. Therefore, it is prudent to invest the time and resources in learning about the implications of Policy Governance on board and CEO behavior.

Transparent Dialogue: If your board is to successfully evaluate and potentially implement Policy Governance, it is critical to engage all board members and the CEO in a dialogue that openly and honestly clarifies expectations and the reasons for changing or not changing governance approaches. Transparent dialogue is essential for creating and building trust among board members and between the board and the CEO. Only when board members and the CEO openly identify and share their disappointments, their fears, and their hopes about the current and possible future governance approach can real progress take place in moving the organization forward with a foundation of trust. This is difficult, but essential work necessary for successful transformation.

Engaging a Policy Governance Coach: Several years ago when I was serving in a leadership capacity on a board that wanted to move to Policy Governance, I made the biggest mistake I could have made: I failed to recognize the importance of engaging a qualified consultant – one who had attended the Policy Governance® Academy℠. We spent an inordinate amount of time and effort trying to implement a system that, in hindsight, we clearly failed to understand or appreciate fully. This caused a great deal of re-work and resulted in some inappropriate and ineffective board behaviors being adopted that were very difficult to eradicate and correct later.

Using an experienced consultant who is an expert in Policy Governance will result in a more effective and efficient learning and decision process. A properly qualified consultant will clearly and correctly explain the Policy Governance principles and facilitate focused and transparent dialogue leading to expeditious, yet informed, board decisions. The ensuing discussion will elucidate the gaps in your current governance approach and allow for productive discussion regarding how to improve the board's governance work.

The Board-Management Accountability Process™

After this intentional discovery process, the board will be ready to decide whether or not to adopt Policy Governance. If the decision is positive, the board will begin developing the four sets of policies that

How Does Your Board Measure UP?

How is your board doing on:

- Being accountable and connected to those on whose behalf it governs?
- Clearly articulating expected organizational results?
- Setting clear policies within which the operations of the organization can proceed?
- Having clear distinction between board and CEO roles?
- Holding the CEO accountable and having clear processes for CEO evaluation?
- Having policies that the board itself follows for its own processes?
- Having clarity about board committees and their respective roles?
- Having an agenda that allows the board to focus on future direction?
- Knowing how the board itself is doing and where it could improve?

The Governance Coach™ offers **The Board Practices Profile™**, a quick and easy way to compare your board's current function to commonly accepted characteristics of good governance. Simply respond on-line to a set of multiple choice options to twelve questions, and one of our consulting team members will send you a response detailing where your board deserves kudos, and where it could improve its function to govern more effectively. We offer this service at no charge to help you gain insight into how to continuously improve your governance capability. Follow this link to take the Profile now: http://governancecoach.com/board-practices-profile/. This profile is designed for boards that are not currently using Policy Governance.

If your board is already using Policy Governance, we offer a similar **Policy Governance Application Check-up™** to give you insights about how to get the most out of the Policy Governance system. Find it at http://governancecoach.com/policy-governance-application-check-up/

govern. (See the sidebar Policy Governance ABCs in this issue for details about these policy sets.)

Our coach can facilitate and expedite the policy development process, starting with policy templates, consistent with the ten principles, and working with the board to refine them based on values already present in any current board policies and further input from the board about its values. This process ensures that initial policies are consistent with the principles of Policy Governance and capture the board's unique values regarding Ends, issues of prudence and ethics regarding how the organization achieves those Ends, and board preferences regarding its own processes.

This initial policy development assists the board in developing an accountability culture by increasing accountability in three areas.

1. The policies reinforce the principle that the board is the link in the chain of command between the ownership and management. The board should connect with the organization's "owners" and is accountable to those owners for accomplishing the organization's strategic-focused Ends in a way that is prudent, ethical and lawful.
2. The policies reinforce the principles that the board unambiguously delegates to the CEO the achievement of those Ends within the boundaries of prudence and ethics (established by the board through the Executive Limitations policies) as reasonably interpreted by the CEO, and regularly monitored by the board against policy criteria. In short, the policies clearly demonstrate the CEO's accountability to the board.
3. The policies strengthen accountability within the board itself as it agrees to act as a group on behalf of the owners as a whole, not as individuals representing their own views or those of specific constituencies.

The Alignment Process™

It is not uncommon for a board new to Policy Governance and having established its initial policies to feel both a sense of renewed purpose and some uncertainty about how to align its behaviors with Policy Governance principles.

Some of the areas which your board may need to align include:

- Board committee structure,
- Alignment of documents such as Bylaws, and occasionally Constitution with the new policies,
- Board agenda cycle and structure,
- Handling requirements imposed upon it by legislation or outside financial or regulatory organizations,
- CEO performance appraisal.

Our consultant will coach the board to help expedite this alignment process by providing numerous practical resources and experience-based examples.

The Accountability Culture Enhancer™

As the board gains experience using the Policy Governance system, it will enhance the culture of accountability through three primary means: 1) Strengthening its accountability to owners, 2) monitoring the CEO, and 3) increasingly holding itself accountable for applying the Policy Governance principles. Let's examine each of these in more detail.

First, the board strengthens its accountability to its owners, as it develops an ownership linkage plan that seeks input on the Ends. The board will start by developing a basic plan that seeks to identify groups or segments within the ownership with whom to connect. The board will determine the best way to connect with the owners, perhaps using a survey or focus group, and will develop questions to get input on Ends issues. Over time, this plan will become more comprehensive as the board learns what methodologies and questions are the most effective at obtaining meaningful information and as it seeks input from various segments of ownership. The board may create a multi-year, rolling, ownership linkage plan that it evaluates and refines each year. The board will set aside significant time during its meetings to discuss the input received from the owners and its potential impact on the desired Ends. The board also will learn how to provide timely feedback to the owners regarding how the board used the input.

Second, the board's monitoring of the CEO will become a regular part of the board meeting. The CEO learns how to create a structured monitoring report that provides the board with measures which, if achieved would demonstrate compliance with its policies, and the actual level of achievement on those measures. In turn, the board learns how to assess the monitoring reports to determine policy compliance. This monitoring process strengthens the accountability of the CEO to the board.

Third, the board increasingly holds itself accountable for ensuring its behavior is consistent with the commitment made in its policies regarding governing style, the board's unique contributions, committee principles and structure, and code of conduct (including handling conflicts of interest). The board accomplishes this in several ways:

- Regularly conducting an evaluation of its meetings to ensure behavior consistent with Policy Governance principles,
- Developing, implementing, and evaluating a plan for regular self-evaluation of its own behavior compared to the commitment made in its policies,
- Developing a board recruitment and orientation strategy that seeks to find and educate future board members that have an ability to "see the big picture," a desire to deal with vision and the long-term versus day-to-day details, and the ability to participate assertively in deliberation while respecting the opinions of others.

Our coach helps the board as it creates and enhances its ownership linkage plan, refines its self-evaluation processes, and becomes more adept at monitoring the CEO. The coach helps the board and CEO more clearly understand the relationships between the ownership linkage plan, the Ends, and the strategic plan developed and implemented by the CEO to achieve the Ends. We provide experience-based, practical tools:

- to assist the development and implementation of the ownership linkage plan,
- to facilitate the development of effective monitoring reports and processes to evaluate those monitoring reports,
- to effectively evaluate the board's own performance.

The Vision Refiner™

As the board becomes increasingly comfortable and skilled in the above processes, it invests more time in strategic thinking and foresight. As the board becomes adept at implementing a perpetual ownership linkage plan, it seeks additional input to inform its refinement of Ends, by using environmental scans, monitoring information, and enriched information from a variety of experts. Thus, the board's agendas become more future-focused; and a greater proportion of the board's time is invested in activities that impact the strategic direction of the organization.

The REALBoard Legacy Builder™

The board, cognizant of the investment of time and resources made to implement Policy Governance, is increasingly aware of taking the necessary steps to ensure that a legacy of governance excellence continues beyond the tenure of current board members. Consequently, the board invests resources and effort to ensure that a board recruitment and education strategy is developed and implemented to ensure new board members become adept at the skills and behaviors necessary for governance excellence. The board invests in a thorough orientation of new board members and continuing education of all board members in the principles of Policy Governance and the principles-consistent processes used by the board.

Our qualified coach assists the board by providing it with the resources and assistance needed to sustain governance excellence. As any good coach, we continually encourage the board to look for ways to keep getting better.

As a board member, you want to make a real difference in the world! Investing in Policy Governance allows you to make that difference. The Governance Coach is here to help you in your quest to improve governance excellence. Please visit our website to discover how The Governance Coach can help your board learn about Policy Governance and how to implement this owner-accountable, future-focused, results-oriented governance system.

THE COST OF POOR GOVERNANCE

by Ted Hull

Your kitchen tap is leaking. You know what I'm talking about. It's that annoying drip that doesn't stop regardless of how tight you turn the tap. I know, those washerless taps were supposed to cure that problem but in my case that has not always worked. My frustrated spouse suggests that we engage the services of a plumber. I soon find out that a plumber is going to charge $125 to install a 35 cent seal or else it's going to cost much more to install new taps. Here's the solution! Instead of buying a 35 cent seal, why not buy a 35 cent sponge and put it in the bottom of the sink? The leaking tap drips quietly into the sponge. . . until the sponge becomes saturated and it begins to drip monotonously into the drain.

Let me tell you five things about the dripping tap problem:

1. It will be frustrating.
2. The drip won't go away.
3. The problem is going to get worse.
4. It will likely cost you money as you continue to waste water.
5. Eventually you're going to call a plumber.

Good governance is costly. However, poor governance is even more costly, and like the dripping tap, it costs more than just money. Let's take a look at a few of the other costs.

Lack of Clarity

First, there is a lack of clarity relating to the issues which are important. Many boards meet regularly to put out fires or respond to issues that have arisen since the last meeting or matters that don't seem to ever be resolved. Because there is no focus on the priorities of the organization and no clear determination of the unacceptable, the same issues are likely going to continue to recur.

Avoiding Real Problems and Issues

Another cost is the time spent by the board in maneuvering around the real problem. It's the elephant in the living room. The board doesn't want to talk about the real problem, because it's terrified to face the consequences. Maybe if the real problem is addressed, a decision will be made that results in a significant donor pulling his support or the CEO will tender her resignation. If it's a church, a high-profile family will move on – or worse, they will stay and make life very difficult for the board. So instead, the board chooses to avoid that issue and tries to manufacture a solution to work around the problem.

Loss of Organizational Momentum

Another cost can be the loss of organizational momentum. Instead of the board spending its time looking to the future with a view to enhanced impact, it gets bogged down in addressing chronic issues. Every fifteen minutes that a board spends discussing those ongoing challenges is fifteen minutes it won't spend on matters that will make a difference for the future of the organization and those the organization serves.

Loss of Good Leadership

Another cost can be the potential loss of the CEO. If the CEO is passionate and effective, but the board is not prepared to establish clear priorities, the leader will probably want to invest his skills and passion in an attractive situation where he can be used to his greatest advantage. That attractive situation is not a situation where a board refuses to address ongoing issues. Competent leaders are not easy to find, so you don't want to lose someone because the board refuses to address an uncomfortable issue. If your organization continues to be dysfunctional and you find a candidate that wants to work for you, it may be someone that is having a difficult time finding opportunities to provide leadership to a healthy organization. That is not the kind of leader you want.

Sometimes the CEO is the problem. However, often the board is afraid to lose that individual because of the political fallout or the hassle of finding someone new. Again, like dealing with a dripping tap, it is better to face the pain now and move on rather than ignoring the problem.

Lack of Board Members

Add to these potential costs the cost of being unable to attract new board members. Men and women who will be effective board members will not want to sit on a board that is rehashing the same old issues time after time. Those who do become board members, may not want to stay there very long.

There is a parallel cost to the challenge of attracting new board members. That is the loss of passion for people to become involved. If you have any involvement with a nonprofit organization now, you will know how hard it is to get good volunteers. You want to create an environment where volunteers are freed up to live out their passion and not become bogged down by the politics of the organization. If there is a problem at the board level, it is invariably going to soak into the day-to-day operations of the organization and those problems may end up squeezing out good volunteers.

Loss of Financial Support

Now, let's talk about a cost we can clearly relate to: the loss of financial support. When the board lacks direction and focus; when it becomes painfully obvious that it is not willing to deal with problems; when it lacks good long-term administrative leadership and when overall, people become disenchanted with what is or isn't happening, people will express their concerns by keeping their wallets in their pockets. When that happens, just go back through the list we've already talked about and see how the problems begin to spiral out of control. Good board members don't want to sit on a board that is constantly dealing with financial problems or where good leaders are quitting or poor leaders are being let go – or worse, kept around – or programs are being cut back or discontinued or there is a chronic shortage of volunteers. The worse it gets, the worse it gets.

Loss of Missional Benefit

The greatest cost of not addressing board issues is the loss of missional benefit. It becomes clear that the very reason for which the organization exists isn't happening or certainly not happening as effectively or efficiently as it could be. You want to be part of something that is making a long term difference in the lives of people. That difference is eroded because of a board that is reactive rather than proactive.

Most board members who find themselves in situations like this are simply at a loss to know what to do. But there is hope. There are qualified plumbers out there who can identify the source of dripping taps and offer some solutions. The cost of education is far less than the cost of ignorance.

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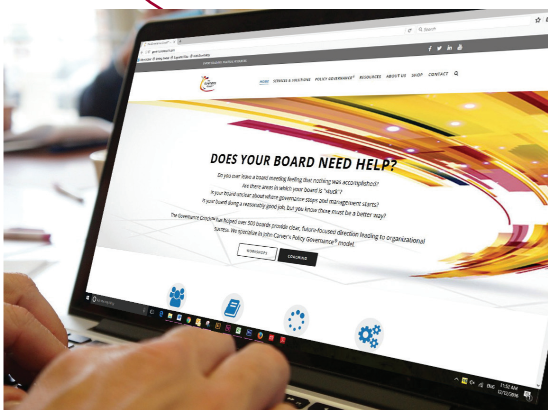

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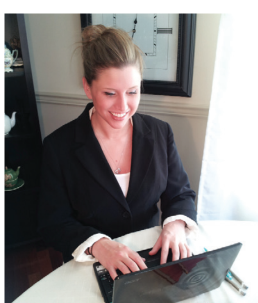

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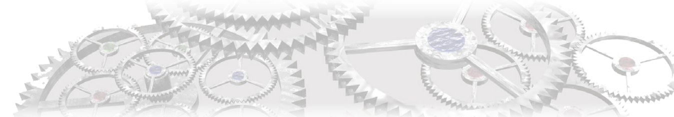

Policy Governance® is a model of governance created by Dr. John Carver. It enables boards to provide strategic leadership in creating the future for their organization. Policy Governance ensures accountability of the CEO (if there is one) to the board, and of the board to the owners (shareholders). Its principles are internally consistent, designed to work effectively when used together. Policy Governance is a complete operating system for boards. If the entire system is not used, it is not Policy Governance.

Policy Governance is a complete system that helps the board:

- Be accountable in the position of trust in which it has been placed by its ownership
- Provide strategic leadership to the organization—its key responsibility—by clearly defining, on behalf of this ownership, what needs are to be met, for whom, and at what cost or worth
- Distinguish clearly between Ends (see below) and means (ways of doing things)
- Be involved in appropriate decisions without meddling or rubber stamping
- Set parameters for acceptable organizational performance and for itself by establishing broad policies in four logical categories that make intuitive sense

Policy Categories

- **Ends** – the benefits the organization is to produce, for which people, at what cost or worth. Ends are developed based on the board's knowledge of and interaction with the owners—those to whom the board is morally accountable.
- **Executive Limitations** – the boundaries of prudence and ethics within which the board allows staff to make further decisions about means, the way things are done.
- **Board–Management Delegation** – the manner in which the board delegates authority to staff through the CEO and measures staff performance through evaluation of the CEO.
- **Governance Process** – the manner in which the board itself operates, including its philosophy, accountability, discipline, and its own job.

With these policies in place, the board can delegate the achievement of the Ends to the CEO, be assured that they are in fact being achieved, and that the manner in which this occurs does not exceed the board's boundaries of prudence and ethics. This assurance is based, not simply on trust, but on a carefully structured monitoring process.

MEETINGS OR MEDDLINGS?

by Dee Incoronato & Jannice Moore

We live in a meeting-based society. We plan, problem solve, and share in small groups. Whether we are in a family, neighborhood, school, government, or business we must have some formal structure to function and meet effectively. I read not too long ago, that in the United States alone, there are more than 11 million meetings a day! The more successful you are, the more meetings you attend. The more successful your organization is, the more important it is to make meetings fruitful. If you belong to a Board of Directors, you are ultimately responsible for the success or failure of your organization. Therefore your board meetings are extremely important.

So why is it that so many board meetings are ineffective? Board meetings are not like a workplace meeting. No one is forced to attend. A board is often made of volunteer members who have shared values and a common vision. As a board member you have your own perception of what the values and the vision mean. In addition, you bring your own experience and expertise to the board; thus, you believe your way can help guide and lead the organization. The more board members, the more opinions and the more complicated it becomes. Multiply this by numerous agenda items! How many times have you been in a meeting and tried to give your opinion on an agenda item? Finally, it is your turn. You speak up and you are confronted about your ideas. What is going wrong? How do these strong personalities keep taking over? Isn't everyone just trying to be helpful? You think to yourself, "If my opinion isn't valued I will just listen to staff reports and call management later and give my view of the matter then."

Typically, board agendas are developed by staff for the board. Most of the agenda items are staff reports. According to John Carver, "Rather than having impassioned discussions about the changes they can produce in their world, board members are ordinarily found listening passively to staff reports or dealing with personnel procedures and the budget line for out-of-state travel." Discussions typically focus on staff activities, about which each board member may have a differing opinion. The budget is examined line by line with different ideas on how money should be spent and why out-of-state travel is so large! Does this sound familiar?

Boards that started as small grass roots organizations still behave as if they are management, even when they now have professional administrators and a CEO. Board members may be concerned they won't know what's going on in the organization if they don't have these detailed staff reports. The real question should be, "What do we need to know about, and why?" Does the board need to know myriads of operational details to make a decision, or just to be aware, or does it need to know at all? These differing purposes require very different kinds of information. Having too much "nice to know" information without clarity about its purpose can result in boards – and individual board members – meddling in management, micro-managing, and effectively hampering the CEO from making real progress in achieving the organization's mission. Conversely, having too little of the right kind of information results in a board that doesn't clearly set direction and doesn't really know whether the mission is being achieved.

There is a better way!

The Policy Governance® model is an effective, integrated system of governance. It "is a framework within which to organize the thoughts, activities, structure and relationships of governing boards." Using the principles of Policy Governance, the board – not the CEO - "owns" the board's agenda. An agenda that carefully orchestrates the board meeting is critical to good governance. This begins with clarity about where the line is between board and CEO responsibilities. With that clarity, information the board receives can be readily divided into three types: information necessary for governance decisions, monitoring information to ensure board policies have been followed, and incidental or "nice to know" information, about which the board takes no action. Following a well-organized Policy Governance agenda will help your board members contribute in their respective roles. Planning, problem solving, and sharing is effective and purposeful; board members are on the same page; the organization is governed by policy instead of personality.

John Carver, *Boards That Make a Difference,* 3rd ed. San Francisco: Jossey Bass, 2006.

POLICY GOVERNANCE® MIGHT BE A GOOD IDEA BUT...

by Rose Mercier

There is a strong case for boards of directors to adopt Policy Governance®. Richard Stringham's article in this issue outlines the benefits it provides. In today's environment where the examples of governance failure are plentiful, what stands in the way of a board embracing Policy Governance?

The excuses are multiple. I am sure that I haven't heard them all but I have heard quite a few. "Yes . . . but. . ." This is the classic start to offering a reason for why Policy Governance might not be a good idea. Let's look at the answers to some "yes . . .but's. . . ."

"Someone on the board has had experience with Policy Governance and didn't like it."

I have to agree that Policy Governance, not well implemented, can be painful. When I speak with board members who have a bad experience, they usually admit the board they were part of was not really sure what to do after they finished writing policies, or that they seemed to spend all of their time writing and revising and policies, or that it was the CEO pushing the idea, or that once they were "using it" they stopped receiving information about the organization. When questioned further, it became clear the board they were part of hadn't spent enough time learning to apply the principles, hadn't sought out expert, knowledgeable advice at key times, ad libbed when they weren't quite sure and abandoned important principles – like monitoring or ownership linkage – so that Policy Governance couldn't deliver the powerful effects of which it is capable. (Policy Governance minus any one of its ten principles actually isn't Policy Governance, because it is an integrated system.) Another reason a board member may not like Policy Governance is because it checked the pursuit of personal agendas by enforcing the discipline of board holism or limiting individual directors' authority. If you are a board that is considering Policy Governance, it is important to not let one person's experience block your path to learning how it can enable your board to be highly effective. Stay curious about their experience but engage in rigorous learning.

"We don't want to lose control of what goes on in the organization."

What exactly does control look like? If it means receiving long documents describing what is happening in every nook and cranny of the organization, or reviewing in detail every expenditure even when the expenditure was part of an already approved budget, or being involved in every 'important' decision . . . then no, that does not happen with Policy Governance. There is a good reason it doesn't. In Policy Governance, a board controls precisely what is important to it: the benefits the organization should produce so it makes the difference in the world that it values; and the lawful, prudent and ethical conduct of the organization in achieving those benefits. It rigorously checks whether the organization is realizing progress and if activities, services and relationships are within the limits of acceptable conduct. A board that correctly implements Policy Governance and exercises ongoing discipline has very powerful tools with which to control what goes on.

"We're in the midst of a crisis, so now is not a good time."

It might sound glib to say that there is no time like the present, but in times of crisis, a board must focus on what is essential to its organization's sustainability and relevance. This is precisely what Policy Governance enables a board to understand. In a crisis, it is tempting for the board to jump in and rescue the organization. Better is using the tools that Policy Governance gives to the board: principles with which to diagnose the possible causes of the crisis and to identify the work that board should do to respond and, as importantly, distinguish it from the work that more appropriately belongs to the CEO.

"Board members really enjoy committee work."

Great! Board members can continue to work in committees as long as those committees are doing work that supports the board in its jobs. Boards can use committees to help in planning ownership linkage, identifying and setting up educational activities, scheduling and managing policy content review, coordinating nominations and board member orientation. If board members want to continue contributing to committees that are engaged in planning programs or services, the option is there to continue to participate, if the CEO wishes to have their participation, as long as they recognize they are accountable to the CEO and have no 'special authority' when working with operational committees.

"It's too rigid."

The words we use often say more about us than that which we are describing. If we say Policy Governance requires self and group discipline or requires that a board act consistently with a set of principles . . . we might think of these as positive attributes given the words we have chosen. But if we like the adventure (or burden) of having to decide upon a new or different approach to every question as it arises, or we revel in ambiguity, then we might choose to say Policy Governance is 'too rigid.' Some might describe the training required to be a brilliant singer or inspiring dancer or medal-winning athlete as rigid; others might choose to say, with admiration, that it requires discipline, and then marvel at the excellence that such discipline produces. Yes, implementing Policy Governance requires the discipline of adhering to principles but the discipline delivers governance excellence.

"Our board is too big, too small, too ___"

It may be accurate to say your board is not the right size, but that is a different question than whether or not it should implement Policy Governance. Large boards can govern effectively just as small boards can govern ineffectively, or vice versa. More important is a disciplined approach to governance where the roles of the board are clearly defined and separate from the roles of staff.

There is no research that definitively identifies the "right" size for a board. Research does yield two interesting themes. First, the average board size in U.S. non-profit organizations is now 15, and the average number of board members has been decreasing from 19-20. Nevertheless, exemplary board practice suggests that it is important to consider board size. For example, board size can be an issue if it is cost inefficient. Larger boards tend to develop sub-groups or cliques which interfere with the board's ability to govern as a whole. Board size can also compromise efficient decision-making, e.g., an overly large board in a small organization.

So, if you think your board needs to consider its size, adopting Policy Governance might help you answer this question. When you have a clear idea of the roles of the board and the work required in those roles, it should help you sort through the answer to the question of size.

"It takes too much time to learn & administer."

Time is indeed a limited commodity for most boards as well as individual board members. But consider the time a board wastes because a decision ping pongs between the board and a committee or staff, or the time and effort it takes to maintain an effective working relationship when the roles of board and CEO are murky, or the time it takes to replace a talented CEO who leaves because of frustration in working with a board that meddles in management rather than focusing on governing. Why not invest the time now for the enduring return of effective and efficient organization? Yes, there is upfront time to learn the system and develop an initial set of policies. After that it becomes a matter of continuous improvement and a board can redirect its time to adding value to the organization.

"We're not broken."

Policy Governance offers any board the opportunity to become highly effective at governing. If your board has effective working relationships, why not capitalize on the advantage and implement a system of governing that optimizes the board's ability to be future-focused, develop strategic foresight and really add value to the organization? We have learned through experience that as many boards start their Policy Governance journey from the point of seeing themselves as effective as from seeing themselves as dysfunctional. Boards can work well because of the people around the table at a point in time. But people change, and what was an effective board team can easily dissolve because of new board members with different perspectives. John Carver said that board problems are more about process than people. Policy Governance provides the avenue for developing a systematic approach to governing that sustains a board through the change in persons gathered round the table.

"We won't know what's going on."

Boards that use Policy Governance almost always declare they know more about what's happening in the organization, and more importantly they know about everything that's important to them. The board will know if the organization is producing the benefits it determined should be produced. It will know if the organization is avoiding ways of achieving results that would be unacceptable to the board (because they are unlawful, imprudent or unethical). A common myth about Policy Governance is that a board doesn't get any information about programs or activities. That's just not accurate. As a part of the Executive Limitations policy on *Communication and Support to the Board*, the board states that it would be unacceptable if it was unaware of critical issues or events – such as anticipated litigation, media coverage, legislation or regulations affecting the organization, key changes in staff. Additionally, the board as a whole can also determine incidental information that it wants to receive on a regular basis because it supports the board's relationship with the organization's members or owners. Some examples of incidental information a board might want to receive are the quarterly financial statement, introductions of new programs or services, notice of new sponsors, significant donations or grants made, current events, programs or services, participant or membership statistics.

"It costs too much."

Governance failure has a high price tag. Just ask an organization that has lost its charitable status, seen its reserve fund disappear due to litigation or theft, or irreparably damaged its reputation in the community. Neither are inefficiency and ineffectiveness without a price tag. Yes, Policy Governance requires an investment to implement in the most effective way. We wouldn't introduce new information technology or a new financial management and reporting system without expert assistance. Boards and CEOs may be guilty of thinking of the board as low maintenance, a job that everyone already knows how to do. Obviously, that's not the case or there wouldn't be governance failures or board dysfunction. We often focus on worth rather than cost in Policy Governance. The question here is: What is it worth to give your organization highly effective governance? What is it worth to ensure your organization is producing that which is valued by those to whom the board is accountable? What is it worth to have a board which is able to concentrate on considering future trends and ensuring the organization remains relevant beyond the next three or four or five years?

"We don't have a CEO."

Let's assume we're not simply using other titles we might assign to a senior manager as an excuse, but talking about an organization that has only administrative, part-time or no staff. It is possible to implement Policy Governance in small organizations where the board is responsible for both governing and managing. The board as a whole would delegate accountability for operations to different working committees which might include board members and others. It would ask those committees to be accountable for operating within the Executive Limitations policies and producing the benefits it has determined the organization should. Another possibility might be that the board would meet as a governing body, adjourn and reconvene as a management committee that was accountable for coordinating different operations committees. Not having a CEO does not disqualify a board from adopting Policy Governance.

"I don't think the legislation governing our board allows it."

We've yet to meet a board where this reason stands up to the adaptability of Policy Governance and the creativity in application that is possible. Regulatory organizations, registered charities, trade associations, foundations, school boards, health boards, colleges, municipal governments and credit unions are all subject to provincial, state and/or federal legislation, sometimes in excruciating detail. But there are examples of each of these types of organizations using Policy Governance.

"We just finished a new strategic plan."

What a great opportunity! A strategic plan is an interesting document because it typically includes a mix of Ends and means. Because of this mix, it often creates confusion in board and staff roles. If a board has limited itself to articulating vision and setting outcomes and left the strategies and tactics to staff to figure out, then it will identify the power of the board setting the Ends and delegating staff the authority to choose the means of accomplishing Ends within the limits set in Executive Limitations policies. However, if a board has been the author of a plan from the largest picture to the smallest of details, it may soon experience some of the problems that Policy Governance avoids by distinguishing Ends and means and bringing clarity to the roles of the board (determining

The Governance Coach™ Team

THE GOVERNANCE COACH™ HAS SPECIALIZED IN POLICY GOVERNANCE® IMPLEMENTATION AND COACHING SINCE 1994

We have helped nearly 500 boards provide clear, future-focused direction leading to organizational success. We specialize in John Carver's Policy Governance® model. Our unique proprietary system – The REALBoard Excellence Advantage™ – takes you through a series of steps, beginning with an assessment of your board's current function, leading to a mastery of applying the principles of Policy Governance. Based on over 80 cumulative years of experience, we provide hands-on tools to make the learning and application process easier.

the Ends and boundaries for means) and the roles of staff (applying the full range of expertise, experience and creativity in choosing means within boundaries to accomplish the Ends). Policy Governance doesn't make a plan obsolete.

"We're just too different."

It is possible to be unique. There are situations where it takes rigorous thinking and creativity to apply the principles. But, we have yet to meet an organization where it was impossible to implement Policy Governance.

And so….

There is a strong case to be made for adopting regular physical activity, recycling and composting, eating a healthy diet, and financial planning – and there are many excuses for not doing so. Yet consider the impact of those choices. Governance failure, group dysfunction, inefficient and ineffective organizations are not usually harmful to the health of individual board members but they can significantly harm the health of your organization.

"Enough excuses. Just do it!"

New Column in our next REALBoard Advisor™ – 'You Asked Us'

The June 2017 edition of the REALBoard Advisor™ will feature a column dedicated to answering questions from YOU, our readers. To submit your question about Policy Governance, please email us at:

info@governancecoach.com

with the subject line: Question for 'You Asked Us'

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