Policy Governance® Defined

John Carver's Policy Governance® model is the world's only complete, universal theory of governance – a conceptually coherent paradigm of principles and concepts (not of structure). The model enables boards – as "servant-leaders" of shareholders, public, members (or other "ownership" equivalent) – to ensure that organizations achieve board-stated goals and conduct themselves with probity.

- Because it is a complete theory, it informs board planning, mission, committee work, agenda control, budgeting, reporting, CEO evaluation, management relationships, fiduciary responsibility, and all other aspects of the board job.
- Because it is universally applicable, it works for organizations that are new or mature, large or small, profit or nonprofit (including government), and troubled or successful.
- Because it is carefully crafted, it enables an efficient summing of board wisdom capable of adequate control without micromanagement.

Policy Governance® in a Nutshell

Leadership is an important, yet elusive concept. It takes on different forms in different settings. The intent of Policy Governance® is to give operational definition to "leadership" as it applies in the specific context of a governing board. It addresses the questions: "How can a group of peers be a responsible owner-representative, exercising authority over activities they will never completely see, toward goals they cannot fully measure, through jobs and disciplines they will never master themselves? How can they fulfill their own accountability while not, at the same time, infringing unnecessarily on the creativity and prerogatives of management? How can they do so when within themselves they disagree, there is a limited time for the task, and there is an unending stream of organizational details demanding inspection?"

All fields of endeavor encounter their peculiar dilemmas and challenges. It is common in natural development of any pursuit for experience to yield helpful tips and shortcuts. To the extent a field continues to advance, frameworks or paradigms of thought develop in which the principles and concepts provide more effective guidance than tips ever can. Management as a social science has certainly seen such a growth over the centuries – most strikingly in the past few decades. Technologies of management from time-and-motion, to MBO, to CPM, to Total Quality have characterized the rapidly growing integrity of the management function.

But while the performing function (management) has undergone impressive growth in this century, the purposing function (governance) has remained the least developed element in enterprise, typically the orphan of management more than its master. This is true in business, nonprofit and governmental bodies, though the typical flaws differ some from one setting to the other. We regularly accept a level of mediocrity in board process that would never be accepted in management. Policy Governance is a departure from the primitive state of conceptual development. It is a radical redesign of board leadership that makes new sense of board-staff relationship, planning, evaluation, and all other aspects of the board job. Unlike virtually every other approach to the board challenge, Policy Governance is a conceptually coherent model, intended as a complete replacement of the deeply flawed traditional wisdom about boards.

In light of the leadership opportunities made possible by Policy Governance, governance as traditionally and widely practiced in all settings appears ill conceived, ineffective, and wasteful. Watching a city council, school board, social service board or trade association board reveals varying degrees of ritual, rework, trivia, and failure to act as a group. Watching a corporate board reveals a CEO-driven charade in which directors are more advisors in the CEO's service than governors in the service of stockholders. Our missions and our own integrity demand that boards govern rather than either rubber stamp or meddle. Our busy lives demand that time, energy and wisdom be well used and that boards and management should both be optimally empowered in their work.

The message of Policy Governance is not that individual boards should work harder toward what has long been held out as the deal for board behavior, but that *the ideal itself is flawed*. By far most literature currently available to help boards is written within the patchwork ideas of the past. Books, articles, course work, seminars, consultants and associations teach outdated forms of governance we should have discarded long ago. This is a primitive field indeed.

And it means that school boards, city councils, corporate boards, social service boards, trade association boards, and a host of others re wasting the bulk of their potential leadership and wasting their operational staff resource due to inadequate leadership (whether laissez faire or intrusive). It means that virtually all sources to which they turn for help only assist in miring them more deeply in outdated governance ideas. Thus it is that most board training is merely teaching boards how to do the wrong things better than they did them before.

It has long been said that boards should stick to making policy and leave administration to managers. But conceptual development of principles and rules for policy making has been scant, consisting mostly of ideas inappropriately borrowed from internal management rather than crafted for the specialized role of governance. Policy Governance, as its name implies, is about governing by policy, but it is policy of a more sophisticated nature than policy as we have heretofore loosely defined it. It has also been said that boards should be (a) more involved and (b) more arm's-length. The truth is that boards should be more involved in some things and less involved in others. Only a creditable model – not anecdotal wisdom – can reliably and powerfully help a board and its CEO know which is which.

The model is a thorough working theory of board leadership that cannot be fully presented in a brief exposure. Nevertheless, here are a few of its basics tenets. Let's begin with the purpose of any governing board's job:

The purpose of [1] the *board* job is, [2] on behalf of some *ownership*, [3] to *see to it* that the organization [4] *achieves* what it should and [5] *avoids* what is unacceptable.

1. The *board job*. It is the board's responsibility to govern; the board has a commensurate authority to govern. Individual board members do not. That is, whatever authority is legitimately wielded by a board is wielded by the board as a group. Hence, a CEO is bound by what the board says, but never by what any board member says. A board should pledge to its CEO that it will never hold him or her accountable for keeping board members happy as individuals and will never hold him or her accountable for any criteria except those expressed officially by the full board. In other words, the board as a body is obligated to protect it staff from the board as individuals.

   For nonprofit and governmental organizations, the "one voice" aspect of governance is regularly lost by having a host of board committees running about involving themselves in issues ostensibly delegated to staff. Staff members end up taking direction from segments of the board. Common committee roles do grave damage to the integrity of CEO delegation. Personnel, finance, program, publicity, and other such committees are the prime offenders. The board should not have committees either to help or instruct staff. Board members can serve on staff committees if asked (removing their board hats in the process), but foisting board help and advice, at best, makes a mockery of the board-CEO relationship and, at worst, renders the CEO no longer a CEO.

The suggestion here, also, is that the board has a specific job to do, a specific set of "values added" that justify its position. This differs from having a job that is essentially looking over everyone else's shoulders reacting, and largely being steered round by whatever staff have been doing (the show-and-tell board meeting of staff reports) or are thinking about doing (reviewing and approving detailed plans). That a board has its own job to do means, if the board is responsible for getting its own job done, that board agendas should be the board's agendas, *not* the CEO's agenda for the board. Yet most board agendas are products of those who work for the board – a practice that would rarely occur anywhere else in the organization.

2. **On behalf of some ownership.** Boards rarely "own" an organization themselves. They ordinarily are a microcosm of a larger ownership. The owners may be legal owners (stockholders for an equity corporation) or more a "moral" ownership (the whole community in the case of a local social service organization). But in any event, the board speaks on their behalf, a task that requires (a) knowing who the owners are and what their desires are;
(b) being able to distinguish owners from customers (clients, students, patients) and other stakeholder groups. Finding ways to link with owners even more than with managements is a major challenge to any board. Most nonprofit and governmental attempts to do so deteriorate into linkage with disgruntled customers instead (watch any city council or school board meeting).

3. **To see to it.** Seeing to it implies a commitment to assure not simply to hope that things come out right. Seeing to it that things come out right requires three steps: First, the board must describe "right" – that is, the criteria that would signify success. These are noted below. Second, the board must hold someone accountable for reaching these criteria. This is most easily done by using the CEO function, for that role allows focusing of performance in one individual even though actual performance occurs due to many individuals. Proper use of the CEO role has been hard to achieve in business and in some nonprofits and government in that boards abdicate to their CEOs until disaster is full blown. Proper use has been hard to achieve in many nonprofits and government (though not so much in business) in that boards interfere with their CEOs, not cleanly delegating sufficient authority to them. Third, the board must systematically and rigorously check to see if criteria are being met, that is, the board must monitor performance regularly.

   Traditional board operation fails in all three areas, especially in the first and third. Outcome expectations (what difference is to be made in recipients' lives) are rarely or incompletely stated. Acceptability of practices and methods is rarely clarified. Hence, when a board tries to monitor, it has no criteria against which to do so. The result is not monitoring, but foraging about. Observe any board approving a financial statement or a budget: the board has no idea what it would *dis*approve, for it has given the CEO no criteria to be met. Traditional board "development" will help a board to follow this path with more ability to read financial statements, but does nothing to help the board find a more effective way to use its time.

4. **Achieves what it should.** What should any organization achieve? This is the most important aspect of instructing the CEO. The only achievement that justifies organizational existence is that which causes sufficient benefits for the right recipients to be worth the cost. What good is this organization to accomplish, for whom, at what cost or relative worth? (I refer to these ways of describing achievement as "ends" as opposed to means.) Traditional approaches to governance have allowed boards to sidestep this crucial determination. We have focused far more on what *activities* the organization will be engaged in, not the consumer results to be achieved.

   Consequently, boards give their CEOs credit for programs, services, and curricula rather than demanding data (even crude data are better than none) on whether the right recipients received the right results at the right cost. In order to lead, boards must learn that services, programs and curricula have no value except as they produce the desired ends. Therefore, boards are well-advised to look past these operational means and on to the ends that really matter.

5. **Avoids what is unacceptable.** Putting the board's emphasis on ends is a powerful tactic for board leadership, but the board cannot forget that it is also accountable for the means as well. "Means" include not only practices and methods, but situations and conduct as well – in other words, all aspects of the organization that are not ends (given the definition above). Concerning itself with means, however, is ordinarily an opening for boards to become entangled in operational details. This is where micro-management and meddling are born. It is a dilemma: on the one hand, boards are accountable for staff practices and situations, yet dealing with them directly trivializes the board job. Policy Governance offers a safer way for boards to deal with this dilemma: The board can simply state the means that are *unacceptable*, and then get out of the way except to demand data (monitor) that the boundaries thus set are being observed.

As counterintuitive as this approach sounds, it works magically. The board can succinctly enumerate the situations, circumstances, practices, activities, conduct, and methods that are off-limits, that is, outside the authority granted to the CEO. For most boards, this can be done in a half-dozen pages dealing with staff treatment, financial management, compensation, asset protection, and a few other areas of legitimate board concern. These proscriptions avoid telling the CEO how to manage, but do tell him or her how not to manage. Although verbally phrased in an intentionally negative or limiting way (to avoid the board's tendency to slip back into prescribing means), this approach is psychologically quite positive. The message to the CEO is, with regard to operational means, "if the board has not said you can't, you can."

To fulfill board leadership in this more effective way, the board produces four categories of policies in Policy Governance. (1) policies about ends, specifying the results, recipients and costs of results intended, (2) policies that limit CEO authority about methods, practices, situations, and conduct (3) policies that prescribe how the board itself will operate, and (4) policies that delineate the manner in which governance is linked to management. These are exhaustive policy categories; except for bylaws, there is nothing else for the board to decide. Moreover, they are policy categories designed for the job of governing, not for the job of managing as are traditional categories used for board policy-making.

There is a great deal more to the Policy Governance® model – some critical principles have been omitted from this brief summary – but these comments provide a glimpse of the wide differences between conventional practice and the Policy Governance redesign of board leadership. The implication is no less than an assertion that what most boards do most of the time is a waste of time and inimical to good governance and good management. It is a hopeful model, in that it asserts that the process is more the problem than the people. (Good managers on boards, by the way are caught up in almost the same errors as non-managers.) No matter how dedicated or intelligent, people cannot be all they can be in a poor system – and that is exactly what boards have been handicapped with. Policy Governance provides an advanced framework for strategic and visionary board leadership.

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