In brief: Policy Governance

In our work with not-for-profit Boards, one of the frameworks that we frequently refer to is Policy Governance. Although it is not necessarily a good fit for all organisations, it does provide a very structured and logical approach to defining the roles and responsibilities of CEO and Board in the governance process. In this article we summarise key elements of the framework – please refer to the Resources section for links to more detailed information.

The information in this article is drawn principally from publications by John and Miriam Carver – see references at the end of the article. Policy Governance is a registered service mark of John Carver.

What is Policy Governance®?

Policy Governance is a system for organisational governance, originally developed by John Carver in the 1970s and elaborated over subsequent decades. Policy governance is based on a framework defining appropriate roles and relationships of an organisation’s owners, board of directors, and its executive staff. The intent of the model is to increase the effectiveness of boards and of the organisations that they govern.

Policy Governance is applicable to organisations of all types including commercial, not-for-profit and public sector organisations. It does not prescribe a specific board structure, but is based on a set of key principles that provide clarity about the nature of board business. The model provides guidance on how to avoid a variety of problems that can affect boards, including micromanagement, rubber-stamping and immersion in trivia.

Key principles

The board acts as trustee

The board governs on behalf of people who are not at the Board table. Trusteeship forms the foundation of governance and the board is the critical link between the organisation and its legal and moral owners. The purpose of the board is to be accountable to the owners for the organisation’s success. The board must accept the responsibility of being a link in the chain of moral authority (or chain of command) rather than an adviser to or equal of staff.

The board exercises unity of control

The board speaks with one voice or not at all. The power of directors is not as individuals but as a corporate entity. The board will not allow any officer, committee or individual on the board to come between the board and its CEO. Individual board members have no authority to instruct the CEO or other staff. Board decisions once made can subsequently be changed, but are never to be undermined.

Board decisions are predominantly policy decisions

The Board cannot (and should not) attempt to control every interaction between the organisation and the world. Policies provide the best way for the board to direct the organisation. Policies adopted by the board are organisational value statements that reflect the shared values of the organisation’s ownership, as interpreted by the board.

Delegation is clear and coherent

The board delegates unambiguously. In organisations with a CEO, all delegation is to the CEO and the board instructs no staff but the CEO.
No subparts of the board can be given jobs that interfere with, duplicate or obscure the authority and responsibility delegated to the CEO.

The board clearly distinguishes ends from means

Ends relate to three matters: what results are to be produced, for whom they are to be produced, and at what worth or cost. Ends are about the difference to be made for persons outside of the organisation. Ends do not describe the organisation itself or its activities. Any decision that is not an ends decision is a “means” decision.

The board is accountable for both ends and means

The board is totally accountable for the organisation and therefore has total authority over it, including over the CEO. The board concerns itself with both ends and means, and controls each in different ways.

The board defines the ends to be achieved

The board makes proactive decisions about the ends to be achieved by the organisation. These documented decisions are “Ends policies”. In setting these policies, the board uses input from the owners, staff, experts and anyone else in a position to increase the board’s wisdom.

The board sets limits on the means that can be utilised by staff

The board makes proactive decisions establishing the limits of acceptable staff behaviour. These decisions set boundaries to prevent the organisation from using unacceptable (imprudent or unethical) means in achieving its ends. These documented decisions are “Executive Limitations policies”. In setting these policies, the board uses input from anyone who can increase and clarify its sense of what could jeopardise the prudent and ethical conduct of the organisation.

Policy development starts broad and becomes more specific where required

The board formulates policy in layers, starting from the most general level (broad statements) and working down to more detailed levels as required. The Board ceases this process in any given policy area where it can accept any reasonable interpretation of its words. This provides clarity on the amount of authority delegated in any particular area, and the accountability expected in return.

The board may change the level of its policy making at any time

The board can alter policy to make it more detailed, more general, and/or change its content at any time, but must not judge performance retroactively.

Delegatees have the right to use any reasonable interpretation of policy

The CEO (or other delegates if applicable) are responsible for accomplishing any reasonable interpretation of the board’s expectations in relation to Ends and Executive Limitations.

The board rigorously monitors performance against its policies

Evaluation of performance is integral to the board’s job. The board assures organisational performance through closely monitoring the performance of the CEO (or others with delegated authority), but only against the policy criteria explicitly established by the board. Since the CEO’s job is to see that the organisation meets the board’s expectations, evaluating organisational performance is the same as evaluating CEO performance. Targeted monitoring reports are required which speak directly to whether board expectations are being fulfilled.
Categories of policy

In Policy Governance, the board develops four categories of policies:

- **Ends policies** – these describe the board’s expectations about what benefits or outcomes the organisation is to produce, for whom, and at what cost or value. These take a long-term perspective and fulfil much of the board’s role in long-term planning.

- **Executive Limitations policies** – these describe the limits on the means that may be employed by staff in achieving the ends, prohibiting means that the board finds imprudent or unethical.

- **Governance Process policies** – these describe how the board will go about performing its own job – its philosophy, accountability and the specifics of its internal processes.

- **Board-Staff Linkage policies** – these describe the relationship between governance and management, how the board delegates authority to staff and evaluates staff performance against the Ends policies and Executive Limitations policies.

Ends and Executive Limitations policies are delegated to the CEO, while Governance Process and Board-Staff Linkage policies are delegated to the board Chair. The organisation may also develop operational policies and procedures as required, which must be consistent with the Ends policies and Executive Limitations policies developed by the Board.

The job of the board

In Policy Governance, the overall purpose of the board is to see to it, on behalf of the owners, that the organisation produces what it should while avoiding situations and conduct that should not occur. To achieve this, the board must perform three primary jobs:

1. **Ownership linkage** – forming a systematic linkage between the organisation and the ownership, to ascertain the range of ownership values about the purpose of the organisation (the ends to be achieved).
2. **Policy development** – writing governing policies in the four areas identified above, consistent with the values of the ownership.
3. **Assurance of organisational performance** – monitoring to ensure that the organisation demonstrates reasonable progress towards desired ends and reasonable compliance with policy guiding means.

The board’s activities (including board meetings) should be geared towards these three deliverables.

Governance emphasis

Policy Governance encourages boards to emphasise:

- The long-term future rather than past or present.
- Ends more than means.
- Encouragement of diversity in viewpoints.
- Outward vision and connection rather than internal preoccupation.
- Strategic leadership rather than administrative detail.
- Clear distinctions between board and executive roles.
- The board’s role in proactively setting the agenda for the organisation.

“Because in Policy Governance the board is in charge of its own job, board meetings become the board’s meetings rather than management’s meetings for the board. Board meetings occur because of the need for board members to learn together, to contemplate and deliberate together, and to decide together. Board meetings are not for reviewing the past, being entertained by staff, helping staff do its work, or performing ritual approvals of staff plans. As a result, many board
meetings may not look like traditional board meetings at all, but learning and studying sessions or joint meetings with other boards... The board is not merely a body to confirm committee decisions, but the body that makes the decisions."

Resources

The following resources are recommended for further exploration of the Policy Governance model.


Assistance with governance review

Lirata Consulting assists organisations to review and strengthen their governance structures, processes and policies. We work with Board members, executive staff and other stakeholders to ensure that governance processes foster accountability, efficiency and focus on strategic priorities.

For further information or assistance, please contact Mark Planigale at Lirata Consulting.

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Notes

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