Governance theory - The Model

1. Why is a model needed? And how can it be universal?

History of the development of human understanding and mastery is replete with the breakthroughs that come from moving from trial-and-error experience to creating underlying theory. Theory is an explanatory set of concepts and principles that might not be evident on the surface of things, but that determines what those "things" are and how they operate. Medical practice, aviation, and electricity all existed before germ theory, aeronautical theory, and electromagnetism theory; but introduction of the understanding made possible in these and other fields due to theory propelled them out of their dark ages. Governance of an organization by an accountable, authoritative group has benefitted from agency theory and general management, but has been severely handicapped by having no unifying theory, no foundation of generic principles upon which each board could build its uniqueness. **Policy Governance can, with equal accuracy, be called a theory of governance, a technology of governance, or a governance operating system.** It is important to note that "model" in this context is not a certain structure or form.

2. Boards are so different. Isn't a "one size fits all" model absurd?

Policy Governance was originally designed as an integration of characteristics that all governing boards have in common, such as **accountability for their distribution of authority to others.** The intent was to find **a universally applicable set of principles upon which each unique board could develop its own governance.** This is the same kind of "one size fits all" as represented by an anatomy chart or a scientific theory. When the fundamental truths are discovered, we can hold them constant while making uncountable variations built on them. One example is the marvelous variety in bridges even though they are all built on the same engineering principles.

3. Why is the Policy Governance model said to be rigid?

Because it is! If you boil down *any* **field of endeavor to its basic, irreducibly minimum principles, those principles are quite fixed. Holding them fixed means all other factors can be allowed to vary as a given board wishes.** Engineering principles are very rigid, but if faithfully observed can be the foundation for an untold array of bridge designs. Any generic theory consists of an inflexible few tenets upon which can safely be built an uncountable array of unique structures and processes.

4. Do some boards find Policy Governance harder than others?

Yes. Boards that are **awkwardly large, publicly exposed, highly regulated, or conceptually inflexible** have a harder time sticking with the **discipline** of Policy Governance or even understanding it fully. **Large boards—because they have a hard time taking group responsibility for themselves. Exposed boards—because the invitation to posturing is often overwhelming, making it a personal risk to take bold steps.** Highly regulated—because regulators, steeped in years of tradition, actually require boards to use practices that are not leading edge. **Inflexible boards—because Policy Governance requires boards to re-order how they view the job and its methods of control.** Having said that, we must add that these factors do not mean such a board cannot use Policy Governance well; but they must work to overcome the extra impediments.

5. What is wrong with using a 'modified' Policy Governance?

Because **Policy Governance is a set arrangements of concepts and principles, if modified it is no longer Policy Governance.** Boards can, of course, borrow concepts from Policy Governance and use them as they wish, but they may not call their hybrid Policy Governance. Frequently, however, boards think they are modifying the model when they are only using the flexibility provided within the model. For example, a board might believe it has modified the model by having committees, mistakenly thinking that the model prohibits committees.

6. Isn't the model hierarchical?

Absolutely! The model is hierarchical because it elevates the organization's owners to the position. Neither board nor staff are allowed to cheat owners of their rightful dominant role. The board represents the owners and would fail in that stewardship if it allows staff to be on an equal level. Often, opposition to being hierarchical turns out to be from a staff wanting the board to treat owners and staff as equals. To do so would be irresponsible. However, **being hierarchical does not have to be oppressive.** It doesn't have to cause greater control over staff than what is absolutely necessary to honor the owners' rights to have a productive organization.

7. What if Policy Governance doesn't fit the way we do things?

Policy Governance is not designed to "fit the way boards do things,"' but to provide a governance design that optimizes owners' informed control over what is theirs. Consequently, **the model is not a board tool to govern management the way management wants to be governed,** nor is it even **an assembly of comfortably familiar**

practices for board members. Frequently, "the way we do things" means "the way our management does things" or, at best, "the way our board has traditionally done things." If fitting what already exists is the desire, then Policy Governance is not a good choice. It forces a new and more carefully constructed discipline of board stewardship combined with optimal staff empowerment, far more than the patched-together practices that conventional wisdom provides.

8. Why is Policy Governance a registered service mark?

The name "Policy Governance" was chosen to describe the brief set of principles that enable governance to be theory-based and conceptually coherent. When such a paradigm is in wide use, people tend to alter this and that segment so that it loses its coherence; that is, there is a tendency to 'cherry pick' and thereby to destroy the soundness of the design, just as altering this wheel or that in one's watch. The term Policy Governance was registered simply to give the designer a device to prevent dilution. The service mark registration has never meant there is a charge for using the model; it is free to all with appropriate attribution and accurate use.

9. How does Policy Governance fit with Balanced Scorecard or other modern tools?

The Balanced Scorecard, along with other impressive and useful tools for modern management are just that, **for management. A great impediment to the development of** *governance* **is that it is traditionally treated as an instance of** *management* **rather than as a related but separate endeavor**. No wonder boards have difficulty distinguishing governance from management, for **people keep imposing management methods and concepts onto governance. If a board governs well—which includes delegating well—managers can be free to use a number of excellent tools to fulfill the board's expectations.** But that doesn't make those tools appropriate for governance, just as **a wrench is appropriate for a** *mechanic*, **but not for an** *engineer*.

10. Why does Policy Governance discourage customary words like *goal*, *objective*, *procedure*, **and** *strategy***?**

These words serve well in management. But there is no reason to think the same concepts or words will be best for boards' work when **governance is designed to fulfill its unique leadership purpose rather than merely a reflection of management.** The concepts represented by management words disregard distinctions that are crucial for optimizing governance. For example, there are **two distinctions that enable a board to establish what it will decide versus what it will delegate, as well as balance staff empowerment and accountability.** These are the **ends/means distinction** and the distinction of **articulated levels of breadth for all decisions.** No existing management concepts correspond to these distinctions; for good governance they are crucial.

11. Doesn't a board's fiduciary responsibility require considerable involvement?

Yes, it does. Fiduciary responsibility must never be ignored. **The greatest fiduciary responsibility is ensuring that what the organization produces** (e.g., literacy, shelter) **is worth what it costs.** (Most discussion of fiduciary responsibility, however, concerns far less momentous activity.) Policy Governance **focuses boards on the more profound fiduciary responsibility through explicit attention to prescription and measurement of "ends," a concept that includes both results and costs.** Few non-Policy Governance boards know whether ends are being achieved or not, since typically they have not established any. Fulfilling all the board's fiduciary responsibility does require much involvement, to be sure, but involvement in setting wise expectations and monitoring performance rigorously, not in hands-on, trivia-beset micromanagement.

The Owners - The board's relationship with the "moral ownership"

1. What is the difference between customers/beneficiaries and owners?

In order to determine what a board's job is and the nature of the obligations of that job, Policy Governance distinguishes between **those whose lives an organization exists to change** and **those on whose behalf the organization has adopted that aim**. A public school board exists so that young people will have skills and understandings; it does so on behalf of the general public. For nonprofits and governmental organizations, these terms are often shortened to 'customers' and 'owners.' With equity corporations (for profit), the term 'customer' is misleading since the word in commerce is used in reference to people who purchase goods and services. An equity corporation exists on behalf of shareholders and also for the benefit of shareholders. It is not remarkable for the two groups to be identical, for trade associations and city governments have the same overlap. Consequently, more accurate generic terms would be 'beneficiaries' and 'owners.'

2. How are owners different from stakeholders?

“Stakeholders” denotes a greatly varied group of all persons who have a stake in the organizations. This group includes donors, staff, volunteers, vendors, clients, board members, neighbors, and owners. All these groups deserve to be honored in specific ways, but **owners are the only ones to whom the organization owes a duty of stewardship.** Owners can be shareholders for an equity corporation, community members for a community organization, paid-up members for a membership association, and so forth. All owners are stakeholders, but only some stakeholders are owners. Individual persons might be in more than one of these groups.

3. If both beneficiaries and owners are important, why separate them?

Although the board has an obligation to both groups, the obligation is different in ways very important to the conduct of governance. **The ownership is the legitimacy base or source of moral authority even if only in an abstract way.** Beneficiaries (who may or may not be part of the ownership) are **the people in whose lives the benefits show whether the organization is succeeding or failing.** The owners or their delegates (the board) have the right to choose who beneficiaries will be; beneficiaries have no such right. The nature of board obligation to owners is to honor their moral authority; the obligation to beneficiaries is, like the board's obligation to all non-owner stakeholders, one of ethical treatment.

4. In practice, how does a board stay in contact with its owners?

There is a wide spectrum of board-owner circumstances and a commensurately wide spectrum of best practices. For some boards, the ownership is small enough that routine in-person meetings work. For others, **a sophisticated sampling technique** is good. When the ownership is large, **the board must take care not to allow self-selection or other bias to substitute for statistically valid owner input.** Public school boards and city councils fall into that trap routinely when they mistakenly treat people who attend their meetings as "the public."

The Board - Doing the board's work

1. Just what is the board's work?

The job of every board that is truly a governing (versus advisory) **board is to ensure that (a) there is an authoritative and effective link between an organization's owners and the operations of that organization, (b) the relevant values of the board as owner-representative are explicit, up to date, and accessible, and (c) the actual performance of the organization matches that which the board has stipulated.** Those three outputs (or "values added" or "job products") are true for all governing boards, but for some boards additional ones are relevant, such as donor funding, legislative change, or other contributions that the board assumes as its own personal responsibility.

2. What is the right board size?

We know of no right board size. The size in any specific situation should be that which most likely assures that the board will get its job done. **Experience *seems* to demonstrate that a size in the neighborhood of *seven* is best for enabling a board to truly be in control of itself, to have spirited yet productive debate, and to engineer further input from larger groups when necessary. Large boards are easier to manipulate, find it almost impossible to govern themselves, and give rise to cliques and stage-managing.**

3. How does the board evaluate itself?

Board evaluation of itself follows the same rule as evaluation of the CEO: **it must be against criteria and done regularly.** The criteria for self-evaluation can all be found in board policy categories governance process and board-management delegation. In those policies, the board will have set out its expectations of itself. It is much more important that self-evaluation be frequent than that it be laboratory-precise.

4. How is an agenda developed?

It is very important that the board's agenda be, truly, the board's agenda rather than the CEO's agenda for the board. Contrary to common practice in which the CEO supplies an agenda, in Policy Governance the board produces its own, for a proper governance agenda is not a rehashing of management decisions. The proper agenda is about the kinds of debates and decisions that proactive governance requires, not an interminable review of staff activities and rendering approvals, both of which are poor uses of board time and wisdom. The actual meeting agenda is but a single installment of a longer range agenda that the board itself should carefully develop, only then possibly to charge the chair with meeting-by-meeting fine tuning. A board that cannot govern itself has no hope of governing an organization.

5. How can a board speak with one voice when members disagree?

No problem at all. **There should be healthy, even passionate disagreement on a board in order for it to presume to be representing diversity in the ownership. So disagreement is a blessing not a blockage. After fair debate, if there are not enough votes to pass a measure, then the board has not spoken. If there are enough votes, the board has spoken.** And what is thereby spoken is the "**one voice**" we have written about. **The board should expect its CEO to treat a 5-4 vote exactly the same as a 9-0 vote. It is an irresponsible board that expects the CEO to deal with its inability to reach a decision or to invoke a calculus to handle a split vote.**

6. If a board member dissents and says so publicly, what should a board do?

A board member who disagrees with a decision made by the board has every right to do so. Indeed, there would be something wrong with a board that always agreed unanimously with everything. It is usual that important issues are issues about which people disagree. In the Policy Governance board, this disagreement is thoroughly expressed and considered before the final decision is made. This enables everyone to say that the process used was fair, open and inclusive. The board then requires that the dissenting board member who announces his or her dissent also announce that the process used was proper.

7. What board member behavior can be considered "sabotage"?

Although people will define the term in a variety of ways, in Policy Governance it would be sabotage if a single board member tries to "end run" the board. It is not sabotage to disagree with other board members, no matter how passionately. But it is sabotage to attempt to undo what the board has legitimately delegated to the CEO. Such sabotage cannot succeed, however, if the board is doing its job the way it should. That includes the board's protecting staff from individual board members when they snipe at, grill, or otherwise act toward staff as if a dissident board member has the right to set criteria for operational performance individually. So while differences of opinion, values, or points of view among board members should be active and transparent to all, a CEO affected by board members' differences rather than what the board as a body finally decides is a certain sign of poor governance.

Board Policies - Using Policy Governance's conceptual categories

1. What if there are governance issues that don't fit in any one of the four categories?

If we can ignore the foundational documents (e.g., letters patent, articles of incorporation, bylaws), **there are no governance issues that don't fit in one of the Policy Governance policy categories. First, all issues have been divided into ends and non-ends (means).** Then means have been divided into **governance (board) means** and **management (staff) means.** At each stage these are exhaustive categories. Because the board's engagement with staff means is a **proscriptive** or **limiting imposition,** then one might say that the prescriptive version of staff means does not fit. However,

prescription of staff means is off-limits to the board in Policy Governance, so are excluded by intent.

2. **How does the "any reasonable interpretation rule" help in writing policies?**

Policy Governance allows the board to control all aspects of organization with a relatively small number of policies. These policies can go into as much detail as the board wishes, as long as the board stops when it reaches the point at which any reasonable interpretation of what it has said would be acceptable. Just as we do not specify the exact temperature, number of cubic centimeters, and other detailed aspects in ordering a cup of coffee, the board need not go into more depth than necessary either. **It needs to control all it must, to be sure, but not all it can.**

3. **How do policies eliminate board approvals?**

Policies of the traditional sort do not. But in Policy Governance board policies embrace the organization so seamlessly that **the standard board approval practice (of budgets, personnel plans, etc.) falls away as an awkward and crude way for a board to control its organization.** Of course, the board would approve its own policies (the more descriptive word would be "**generate**" instead of approve in order to distinguish two very different kinds of "approval"), **but would not weigh managerial decisions to determine whether to make them official. That is not only a waste of managerial time, but of board time as well. The board's ends policies declare what performance is expected, so** *there is nothing to approve***.** The board's **executive limitations policies declare those violations of prudence and ethics that would make any executive action out of bounds, so** *there is nothing to approve*. In a sense, the **policies set up a pre-approval zone in which the CEO is free to move about**, but must prove periodically according to a board monitoring schedule that the organization stayed within the zone.

Ends - Capturing board values about results

1. **Isn't ends just a jargon word for goals?**

Not at all. The ends concept—unique to Policy Governance—**is a very special type of goal, one that designates the results for which the organization exists, the recipients or beneficiaries of those results, and the worth of the results or the results for certain recipient groups.** There is no existing management term that combines these elements. Moreover, the words *goal* and *objective* refer to *ends* sometimes and to *non-ends* sometimes. Since the ends/means distinction is a basis for designing good governance, **the use of traditional management terms would be dysfunctional.**

2. We have a strategic plan. Is that not just ends by another name?

Not at all. **Strategic planning is a useful management tool enabling managers to plan the allocation and use of resources over a multiple year period in order to fulfill organizational purpose.** Careful designation of that overarching purpose in terms of effects on the world, who receives the effects, and the results/money value of the effects is ends. **Strategic plans are almost entirely means documents for which managers not only have accountability but the information and skill to set out and follow.** It is true that the board's work is 'strategic,' but that does not imply doing any more with a strategic plan than to make clear in ends policies the reason for having any planning at all! [Note: Strategic thinking and intent versus strategic planning and management]

3. Are ends just a restatement of services and programs?

Services and programs (or curricula in schools) are important arrangements of staff work and physical arrangements meant to have the desired effect on a target population at some level of efficiency. **Designations of the desired effect, intended population, and required results for money spent are, taken together, what the Policy Governance model calls ends.** *For example, a job training program is a means issue; that a certain population have job skills is an ends issue.* Services and programs are, then, very important staff *means*, not ends at all.

4. How often should ends be revisited?

Clearly, ends should be revisited on a regular, very focused basis, for they determine the usefulness of an organization to a changing world. Whatever the length of the cycle, however, the board could structure its agendas so that some aspect of ends is on the 'front burner' at all times.

5. Can our board begin its ends work with the mission statement we already have?

It is very unlikely. Mission statements come in many forms, but rarely does one conform to the strict **results-recipients-worth** format of ends. Pre-existing mission statements might be inspirational, slogan-ready, or even fairly specific about the 'recipients' component of ends, but we've never found one that fulfills the requirements for a global (all-inclusive) expression of the three critical variables.

6. Why is the ends concept said to be such a breakthrough idea for boards?

Boards, particularly nonprofit and governmental boards, have traditionally been lax about setting rigorous expectations for organizational performance. Frequently, they set none or almost none. At other times **they express performance in terms of staff**

activity or program operation, thereby rewarding not impact on intended consumers, but well-intended busyness. (Teaching is not the same as student achievement. Counseling is not the same as client improvement. Coaching is not the same as winning. Running a service is not the same as obtaining intended results.) Moreover, **once it is clear which results are to accrue to whom at what result/cost (efficiency), all other staff decisions can be allowed to vary within pre-set limits of ethics and prudence.** Thus, the ends concept imparts a real-world focus for organization effort and optimum empowerment of management, while *enabling board withdrawal from myriad "how to" questions best answered by staff anyway.*

Organizational Means - Capturing board values that control staff prerogatives

1. What is the definition of means?

In Policy Governance, **means refers to any behavior or outcome that doesn't fulfill the definition of ends.** In other words, **means are non-ends.** So **if a decision is not about designating the kind of result that justifies organizational existence, nor the recipients/beneficiaries of those results, nor the worth of those results, then it is by definition a means decision.** The board and staff both make means decisions. The fact that **a decision is a means decision rather than ends does not imply that it is a small or inconsequential decision.** Means decisions can be extremely important, even crucial to organizational survival. Not going broke, for example, is a means issue; it is obviously crucial, but it is not why the organization exists.

2. Why are policies written in negative language?

Only one of four categories of policies is written proscriptively, so the majority are not in negative language. Still, a board's writing down what the CEO shall not do is an unfamiliar style. The theory reason for the "shall not" wording is that—given the accomplishment of ends—the board in Policy Governance gives the CEO as much freedom as possible, short of a latitude that would include imprudent and unethical behavior. Hence, instead of taking on the interminable task of telling the CEO and his or her staff how to do their jobs (thereby damaging the degree to which the CEO can be held accountable), the board imposes limits and can get safely out of the way. These limits describe the board's values about prudence and ethics and have the form of "s here and go no further" rather than "do things a certain way." The result is an unfamiliar, but extremely succinct, policy wording that places more value on precision governance than on rhetorically pleasing language.

3. **Does using Policy Governance mean that all the board's "means" decisions must be negative?**

No. **Only when the board instructs management with respect to management's means must it set boundaries rather than be prescriptive.** Two categories of board policies address the means of the board rather than of the staff. In these policies, the board can use normal prescriptive language. These two categories are usually called Governance Process and Board-Management Delegation. The idea is that the board can certainly tell itself what to do, but will empower staff safely and better by only saying what it shall not do.

4. **Is it correct that Policy Governance will not allow the board to get into operational means?**

It depends on what you mean by "**get into.**" In Policy Governance, **the board is in control of every possible aspect of organization except that which might in some cases be controlled by the ownership. But the board's control is through expressing ends and limits on staff means, then demanding data to prove achievement and compliance.** We've heard of a school board's CEO who, upon being confronted by board interest in a report of unsafe buses, let the board know that was her territory, not the board's. Assuming the board has, in an executive limitations policy, disallowed unsafe conditions, then the CEO may well be in violation of board policy. Board delegation to the CEO does not free the CEO from having to comply with relevant board policies. **It does free the CEO from board intrusions that are not founded in board policy, the kind of capricious meddling that is not criterion-based.**

5. **Isn't it dangerous for a board to tell the CEO "if we haven't said you may not, you may"?**

In governance as commonly practiced, **such a board statement would be irresponsible.** Policy Governance, however, provides a mechanism by which **the board can safely say exactly that with respect to its CEO's decisions about means.** The safeguard lies in **thoughtfully putting unacceptable staff actions, situations, and decisions "off limits" using a descending level-by-level articulation of policy.** The level-by-level approach enables the board to control everything at least broadly and carefully selected things to a greater degree. This practice enables the board to responsibly delegate greater authority for use in achieving ends to which the board is committed.

Committees & Officers - Helping governance rather than thwarting accountability

1. What is the role of the board chair?

The most effective role is to serve as chief governance officer (CGO). The CGO is a first among equals in the sense that he or she has no authority except that granted by the board. The CGO is a true servant-leader in the Robert Greenleaf conception, just as much an employee of the board as is the CEO (though possibly without the perks!). A good CGO can help the board be true to its group and individual commitments, be forced to confront itself, and efficiently get its job done. But the importance of this position is because of its effect on governance, not on management.

2. What's the right relationship between the chair and CEO?

The two positions of chair and CEO are quite different. **The CEO sees to it that the organization meets board expectations. The chair guides the board to meet its own expectations of itself.** These jobs are not related by hierarchy. **The CEO does not report to the chair, but to the board as a body. Similarly, the chair does not report to the CEO, but to the board as a body.** Because the CEO works for the board, he or she is not accountable to the chair, not supervised by the chair, nor ever should be said to report to the board "through the chair." Hence, **the chair and the CEO are colleagues, in adjacent jobs. The chair and the CEO may decide to interact in an advisory fashion with each other or not.**

3. How can executive committees damage governance?

Executive committees need not damage governance, but can do so **when they are empowered to take the board off the hook for shouldering the governance burden.** Often this empowerment is phrased in bylaws as **the authority to make board decisions when the board is not in session (which is, by the way, most of the time).** The executive committee can become the real board within the ceremonial board; that is not a formula for promoting board wholeness. After all, **the board as a whole bears**

legal and moral accountability. If, however, an executive committee is given the task of helping a board stay true to its commitments or other such charge that does not interfere with the board and only the board governing, then no damage is done.

4. **What is the Policy Governance rule about board committees?**

Let's begin by defining "committee" as any group created by the board, no matter who is on the group, no matter whether ad hoc or standing, and no matter whether it is called committee, task force, or other name. Sometimes forming committees can help the board get its job done. But **the board must take care that committees do not (a) interfere with unambiguous delegation from board to CEO and (b) reduce in any way the full board's role in making governance decisions.** Therefore, in Policy Governance board committees can exist only when helping with part of the board's job, never to help with or advise on part of what has been delegated to the CEO. Further, it is usually best for a board to request **options** from a committee rather than **recommendations**. As to committees created by and answerable to the CEO or the CEO's staff, the board can leave those decisions completely to the CEO, for they are not governance issues.

5. **But don't board committees offer board members the opportunity for involvement?**

Of course they do. But **involvement is not necessarily a good thing. Involvement in the right things is. To involve board members in activities that damage accountability or duplicate work is to value members' involvement more that organizational effectiveness.** Put another way, *it ranks board member enjoyment over the board's duty to the ownership.*

Monitoring - Helping governance rather than thwarting accountability

1. **How is monitoring different from approval?**

Monitoring, as construed in Policy Governance, **consists of comparing performance data against a reasonable interpretation of either ends policies or executive limitations policies.** Consequently, **only the characteristics or aspects of some topic** (e.g., budgeting, personnel treatment) that are controlled by the board need to be checked. The board will have built those criteria into applicable policies, **so the CEO knows up-front the expectations against which he or she will be judged.** Therefore, the board does not do blanket approvals of budgets, program designs, or staff compensation plans, but **it will have set out the limits of prudence and ethics within which the CEO must stay.** Monitoring pointedly targets those board-stated criteria, making these criteria the board has chosen to control stand out in bold relief.

2. What is so wrong about approvals?

The customary use of board approvals occurs with few or no criteria, drawing the board into greater levels of detail than it needs to control. Instead of giving careful consideration to, for example, the characteristics of budgeting that the board would find unacceptable, subjecting various opinions about those characteristics to debate, then demanding proof of CEO compliance, approvals occur by summing individual board member votes on whether a budget is acceptable. However, **if standards of performance are clearer and trivia-free, the board is enabled to focus on the broader values, those in its judgment it must require the organization to meet. Approval does stamp a document as official, but it is impossible to tell what characteristics made it approvable and what might have made it unapprovable.** Moreover, by far the greatest number of items in the approved document are considerably below the level of most boards' need to control, yet the CEO is not authorized to decide them—a blunt delegation instrument, indeed. **Instead of building a set of carefully considered board values over time about the various aspects of organization, there is merely a stream of documents officially blessed by the board.**

3. What should a board look for in monitoring reports?

The purpose for monitoring reports is to enable the board to know the degree to which a reasonable interpretation of its ends and executive limitations policies is being fulfilled. Consequently, a board should seek in those reports answers to two questions: **(1) has the CEO made a reasonable interpretation of our policies** and **(2) do the data demonstrate accomplishment of that interpretation. Failing either constitutes a policy violation. In a report, then, the board should expect to see the CEO's interpretations along with justifications for the board to find them reasonable; the board must fairly but rigorously decide whether the CEO's case is convincing.** Also in the report, the board should expect to see data purported to demonstrate achievement of those interpretations; again, **the board must fairly but rigorously decide whether the data credibly prove compliance.**

4. What if a monitoring report shows non-compliance?

Non-compliance—or, put more pointedly, failure to demonstrate that a reasonable interpretation of board policy has been achieved—is an important event, decided by a

vote of the board as to whether board members found both the CEO's interpretation and submitted data convincing. The Policy Governance model does not dictate what a board then does, except that **it cannot ignore the non-compliance.** In some instances, the board's best judgment would be to declare the non-compliance, but take no disciplinary action unless the non-compliance continues. In other instances, immediate firing of the CEO might be best. And there are any number of options between. **It is possible, of course, that the board having had its attention drawn to the policy being monitored will choose to change the policy. But policy change is a separate issue and never to be done simply because of non-compliance, but only due to an actual change in the board's values about the matter.**

5. What is the importance of the "any reasonable interpretation" rule?

When judging CEO performance upon receipt of a monitoring report, **the board must be true to its promise to accept any reasonable interpretation of what the board has said in the applicable policy. It is not fair to impose more detail in judging than was stated in the criteria. Any reasonable interpretation means just that. It doesn't mean the interpretation of the most prominent board member, the interpretation the board had in mind but didn't say, or even the interpretation** *now* **favored by the entire board. The board is obligated not only to be fair in this judgment, but to protect the CEO from individual board members who wish to judge based on** *their* **interpretation of the board's policy.**

6. Why isn't the standard financial report a good monitoring report?

The standard financial report—take, for example, a profit-and-loss statement—**is a management document with great utility for managers. But that does not make it a useful governance document**, for the data needed for one level of organization isn't necessarily the data needed for another. **Documents appropriate to a lower level have the propensity for drawing the higher level position inappropriately into lower level issues.** Consider for a moment why a board wants a report to begin with. In Policy Governance the board would have set out the financial conditions and activities it considers imprudent and that must be avoided. It would do so comprehensively, exhaustively—possible due to the unique nature of the Policy Governance treatment of descending layers of decisions. The criteria would likely be about current ratio, cash balance, bad debts, or other aspects of financial management that pose imprudent risk. Having set its values out in an applicable executive limitations policy, the board must obtain reassurance on some regular basis that the CEO is not allowing the organization to violate the policy. So the board requires the CEO to furnish tailored monitoring reports that compare the board's criteria to real performance on those items sufficiently complete that the board can decide whether a reasonable interpretation of policy has been achieved. Standard financial reports are not tailored and pointed in this way, for they are not aimed at a specific board's criteria. Moreover, it is common for boards to have financial criteria that are not only hard to find in a standard financial report, but totally omitted. Policy Governance requires more precision than is afforded by standard reports.

Role and relationships of the chief executive officer

1. What is a CEO? Is there a difference between CEO and executive director?

Boards use many different titles to describe the staff person in their organization. We have seen executive director, superintendent, general manager, president, executive vice president, and many more. The title used, however, does not tell us if the incumbent of the position is a CEO (even if "CEO" is used as the title). The CEO, if one exists, is the first person below the board of directors who, as an individual, has authority over the organization. He or she is accountable to the board that the organization meets its expectations. And accordingly, the CEO, to be a real CEO, must have authority over the operational organization. Many staff positions are given only partial authority to make decisions, and therefore cannot be held accountable for the performance of the organization. It is, after all, not possible to hold people accountable for decisions and actions over which they have no authority.

2. Is it necessary to have a CEO in order to use Policy Governance?

No. It is true that if the operational or executive portion of an organization is headed by a CEO, governance is easier, for the board doesn't have to deal with division of labor and its accompanying multiple delegations. But the board can still use all of Policy Governance if it chooses not to create a CEO position. Without a CEO it is still true that the board should make clear the worth of expected results for intended beneficiaries. It is still true that the organization will produce more creatively and productively if the board stays out of the way except for setting prudence and ethics boundaries. So unambiguous delegation of specified authority and mandatory accountability still must occur, even though without the simplicity of single-person accountability the board job is more difficult.

3. How does the board evaluate the CEO?

The board's chief evaluative interest is whether the organization achieves the board's ends and operates within the board's executive limitations. If a board has a CEO, then it holds him or her personally accountable for that organizational performance. The board doesn't evaluate the CEO so much as it evaluates the organization and pins it on the CEO. The organization's performance is disclosed by a monitoring system that, on a continuing basis, provides the board with applicable data. The running revelation of that system is the CEO's evaluation. If the board wishes to punctuate that continual stream, it may do so, as in an annual evaluation, for example. But nothing can come up in the punctuation that wasn't already in the regular monitoring system, since that system is exhaustive.

4. Isn't it dangerous to give as much authority to the CEO as Policy Governance does?

Policy Governance in itself doesn't give either more or less authority than traditional governance practices. But what it does give, it gives explicitly and traceably. It is common for boards not using Policy Governance to give their CEO a great deal of authority implicitly. (As just one example, for the CEO to be the main source of a board's agenda conceals a great deal of unnoticed authority.) Moreover, Policy Governance doesn't dictate how much authority a board should give or withhold. It sets out a framework in which each board makes unequivocal decisions about how much CEO authority there is to be.

5. Why give a lot of authority to the CEO?

The CEO position is the board's guarantor of organizational performance. Once the board has defined desired performance, the real work begins. Boards that value performance desire and deserve a powerful CEO. So it is to the board's advantage that the CEO has as much authority as the board can prudently grant him or her. And, of course, it is to the board's advantage that the CEO be successful. The amount of authority given to the CEO is only limited by the board's own need to be accountable to the ownership and before the law. But since it is the board deciding how much authority to give, setting the limits, and defining success, the CEO is always less powerful than the board.

6. Doesn't Policy Governance require a great deal of trust in the CEO?

A Policy Governance board sets out comprehensive expectations for organizational accomplishment, then demands credible performance data relevant to each expectation. The board can choose to receive these data from sources other than the CEO (e.g., an auditor). So Policy Governance does not require more trust than board practices in which expectations are less explicitly set and monitoring is less precisely targeted. It actually requires less. Frankly, the more substantial trust issue in organizations is for the CEO to be able to trust the board (e.g., never to evaluate on unstated criteria or never to leave the CEO to the mercy of individual board members). Consequently, Policy Governance not only addresses CEO trust issues, but requires board behavior that is trustworthy.

Operational Staff - The board's relationship with staff below the CEO

1. **Should staff attend board meetings?**

Staff under the CEO may attend board meetings, unless an in camera item is being discussed, but should not be required to attend by the board. Occasionally the board may wish to obtain staff input about a decision the board is going to make, and asking the CEO for the attendance of staff members for such a purpose is fine. Sometimes, the CEO may decide that he or she will need the assistance of a staff member in giving input to the board, and the CEO of course has the authority to require staff attendance at such times. Perhaps the most important point, however, is that **the board meetings belong to the board, not to the CEO and certainly not to the CEO's staff.** Nothing should ever be allowed to cloud that distinction.

2. **Isn't it a waste of talent if board members cannot help staff?**

It might well be. But **there is nothing in the Policy Governance model that prevents individual board members from helping staff unless the staff do not want it.** As long as **only the board as a body can exercise authority over staff (and then only over the CEO if there is one), then individuals can relate in any way they wish.** With this construction, it is obvious that **board members cannot foist their advice on staff, but may freely give it if asked.** The key is that **the mechanism of advice must always be thoroughly under the control of the advisees.**

3. **Is it true that the board can't talk to the staff, and if so, why?**

No, this is not true. In Policy Governance, **anyone can talk to anyone.** What is true, however is that **the use of authority between board and staff is very carefully controlled. Only the board issues instructions**; board members—even the chair—do not have the authority to do so. And board instructions go to the CEO, if there is one. In addition, **board members as individuals or as a group are not permitted to make assessments of the performance of sub-CEO staff members. Having the right to judge performance is actually almost the same as having the right to set expectations.** The **board as a body assesses organizational compliance with its pre-stated expectations,** and holds the CEO accountable for this compliance.

4. **How can a board member contribute special skills or knowledge when the board must "speak with one voice"?**

Nothing in Policy Governance prevents a board member from advising or helping staff as long as **two safeguards** are in place: **(1) The board has made clear that no board member has any authority over staff**, even the authority to foist advice or even demand to be heard, and **(2) the CEO or his/her delegatee requests or accepts an offer of advice or help.** With these rules in place, there is no limit to the amount staff can tap the special gifts board members might bring.

5. **Staff are the most critical ingredient in success, why shouldn't the board have a hand in their selection?**

Ironically, **this is why the board should not be directly involved except to choose a CEO.** In any situation, **accountability is maximized when as many of the factors of production as possible are in direct control of the one to be held accountable. When a board involves itself in any of those factors, it reduces the degree to which it can hold its CEO accountable.** The best course for the board to take is **(a) to demand performance and assess it rigorously** and **(b) to establish limits outside which CEO (thence staff) decision-making cannot go**, and **assess that just as rigorously. It is only when boards fail to do these things that they are tempted into 'getting into the kitchen.'**