The Power of the Continuous Interpretive Process

Written by Dr. Richard Biery, The Broadbaker Group, Winter 2010, Leadership & Governance Newsletter

The other day I had a conversation with an insightful friend who serves on a Policy Governance board, a board where it and the CEO are in sync, and it is working well, perhaps very well. He used a phrase that caught my attention. We were discussing the importance of monitoring reports and the chair-CEO working relationship. Parenthetically, chair and CEO are partners in a sense, together making the top leadership "system" work. The chair is responsible for optimizing the governance of the board - its quality, including 1.) wise and clear instructions that set both direction and wise protective policies, which, together, optimally empower or enable the CEO to lead the organization in its accomplishment of those ends while safeguarding it and *2.) assuring that both happen*. Thus, they have complimentary and synergistic roles.

A good board empowers and inspires its CEO, but the CEO's response to the board, in addition to providing the assurance usually through monitoring reports, also furthers and strengthens the board's development in several other ways. This latter is more subtle, and this is where my friend's comment struck me. He referred to the "heart" of Policy Governance as the "*continuous interpretive process*" and its power. He was referring to the ownership-board policy-policy interpretation (and execution) linkage and the board's perpetual learning from the feedback regarding its policies. Done well this leads to at least five powerful consequences, the first one of which, (not in any order), we'll discuss in this newsletter, others to follow:

The first is a better understanding of all organizational areas relevant to risk, the executive limitation policies, i.e., those policies designed and intended to keep the organization away from undo risk. Unless a board sufficiently understands the organization's operating environment, it cannot wisely craft policies concerning risk prevention, much less understandingly monitor those policies. BP would be a good example of that challenge. Drilling for oil, especially deep water drilling, is fraught with risk. So is refining oil, as we know. To even craft good policies that meaningfully result in the mitigation of these risks sufficiently to satisfy the board's intent takes a degree of knowledge of the operating environment and its risks. The corporate writing of the monitoring report, in turn, must satisfactorily address those policies, their meaning and implications. Also, it further informs the board regarding, not only the interpretive environment around that risk or body of risks, but how the organization performed against the (interpretation of) policy, and how good the policy wording was in the first place. Even the "template" policies that boards commonly use to get started have some technical/operational language, especially those policies dealing with financial conditions. The board should understand the meaning and implications of this language and certainly needs this knowledge to judge the quality of the monitoring report(s)! We often say the board should wait for the monitoring report to learn more about the implications of the policy, and this is good advice. However, there needs to be knowledgeable discernment behind the board's assessment of the monitoring reports.

Note the implicit cycle. Policies are crafted as the board seeks deep understanding of ownership and its own values, then the best policy wording that effectively address risk in the organization's context. Then the monitoring report enriches the board's understanding, perhaps triggering further questions and further learning. In a very relevant and focused way the board continuously becomes more sophisticated around what it should truly be concerned about.

The usual approach for a traditional board is to create a committee which is supposed to become expert on the area in question, such as drilling or refining risk or financial risk and poke into the organization asking questions and giving advice or even direction. This governance device is turning out not to be a very effective one. BP, in fact, had such a risk committee, and it received reports, supposedly asked probing questions and in all this activity failed to assure itself, much less the board, that the risk environment in BP had changed for the better since the board's external report on risk a few years earlier! Meanwhile, the board apparently relaxed, thinking the committee was its assurance mechanism.

Boards do that all the time, the best example being audit committees. Boards default (or abrogate) a governance risk assurance component to the "experts" on the board and then "receive" reports from said experts/committees. The board as a whole never becomes increasingly sophisticated in the subject but accepts reports and asks questions out of its perpetual inexpertness. (Turnover makes this all the worse.)

This observation by my friend (of the cycle of increasing understanding of the organization's risk environment) may startle Policy Governance observers who think of PG as advocating "hands off" operations. The key words here are "sufficient" or "adequate" understanding. It is not knowledge and understanding intended to "help" or direct the CEO but to confidently assess the outcome of compliance, with "compliance" becoming better and better understood, clarified, and defined.

We'll address further aspects of the perpetual learning that should occur under Policy Governance's continuous interpretive cycle next time.