



"Oliver clearly conveys the powerful principles that comprise the Policy Governance model."

—JOHN CARVER

Getting Started with
POLICY
GOVERNANCE

Bringing Purpose, Integrity,
and Efficiency to Your Board

CAROLINE OLIVER

FOREWORD BY **JOHN CARVER**

Creator of the Policy Governance Model

Property of Yavapai College
President's Office

If you own something, be it a house or a school system, subject only to the law, you have the right to do whatever you want with it, which generally includes the right to neglect it, abandon it, or destroy it. However if you do neglect, abandon, or destroy what you own, its value to you will be lost. Thus, you will usually take one of these courses only if you believe that your asset has become more of a liability than an investment.

In all other cases, **if you own something, you will care for it for yourself and for all possible future owners, for that is the only way in which you will be able to preserve and even, you may hope, enhance your investment.** In other words, even if you intend to sell the item or give it away tomorrow or hold onto it for your entire life, you have to look after it on behalf of other people—people who might want to buy it, lease it, inherit it, or otherwise acquire it—or you will lose its value. In other words, when we are talking about owning assets, their value can only be protected and enhanced if it is transferable to others.

Ultimately, therefore, **ownership cannot be entirely self-centered.** If I don't look after my things as if they were ours and if I don't look after our things as if they were mine, I will be left with nothing. It is in this sense that your board's role is to act as the ownership of your organization. It is in this sense that owners' best interests and the organization's best interests are synonymous. If I abuse the company I own, if I don't repair the roof of my house, if I don't change the oil in my car, if I don't care for the planet, I will lose my ability to realize their value. The best interests of my company, my house, my car, and my planet are, ultimately, my best interests.

If you are the responsible owner of an asset, you will

- **Care for its value beyond your own personal use of it**
- **Be concerned with it as a whole**
- **Want it to be productive**
- **Want it to be safe**

If you are to be a Policy Governance board, you need to start from here.

WHO ARE YOUR LEGAL AND MORAL OWNERS?

This may seem a strange thing to say, but if you agree with the theory that your board's role is to act as the ownership of your organization, it follows that being on a board is not about you as an individual. Stated another way, you are not

Potential Future Owners In considering your definition of your organization's ownership, your board may also want to consider the degree to which it wants to take into account the interests of future owners. To say that boards are only obliged to concern themselves with the interests of today's owners is not necessarily as black-and-white a statement as it may seem. For example, as the board of a publicly listed company, how should you balance the harm that might be done to the value of your current shareholders' stock as a result of disclosing a possible risk against the harm that might be done to your current *and* future shareholders by not disclosing that same risk? And how can a board prevent owner-executives with significant shares from taking huge risks, ostensibly in an effort to benefit today's shareholders but ultimately damaging all shareholders' best interests, including their own? And what about boards that use poison pills to deter takeovers by potential future shareholders? Are they really protecting the interests of current shareholders by keeping future shareholders out? Or are they protecting the interests of corporate executives at the expense of their current shareholders' right to sell their shares to the highest bidder?

In the nonprofit arena, too, it can make sense for a board to broaden its definition of its current ownership to take some account of the interests of future owners. For example, boards of associations might well be advised to treat potential association members as part of their moral ownership, in part to protect themselves from being held hostage by members who are operating from a customer's motivation rather than an owner's motivation. In any case, your board might think it worthwhile to consider how matters such as its level of tolerance for risk are likely to be affected by its attitude toward the interests of future shareholders.

KNOWING WHAT YOUR OWNERS WANT FROM YOU

Once you have identified the composition of your ownership and how you are going to weight the interests of relevant subgroups within it, you have created the most critical reference point for development of all your policies, including your Ends policies. Now the challenge is interpreting what your owners want from you.

Boards use owners' capital to do their work, whether it is in the form of cash and authority or just authority. Legal owners' ultimate sanction is to withdraw that capital, so it is important that the board take full account of legal owners'

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wishes and that the board feel that it can always justify its decisions as being in the best interests of all owners, including minority owners. Moral owners can also withdraw their support in whatever form it has been given and thereby cause great difficulty for all involved. In any case, **if your board and your organization are failing to act in accordance with your owners' wishes, you are not only failing to fulfill your ultimate purpose, you are putting your board and your organization in jeopardy.**

So what do your organization's owners want from you? Indeed, what do any organization's owners want?

Success

Briefly stated, what owners of all types of organizations want is shareholder value. Of course, what owners consider to be value differs drastically, but the important thing is that it is considered to be value. In other words, what owners want is some good for some people. It could be housing for the homeless, food for the hungry, or a financial return on their hard-earned money for themselves and their families; the possibilities are endless. Your constitutional document and bylaws will state the arena in which the value is to be generated in some sort of statement of purpose; however, that statement will usually leave many specifics unanswered.

Who are your owners seeking to benefit? What priority would they want to give to particular subgroups of those beneficiaries, if any? How would your owners like those beneficiaries' lives to be different as a result of your organization's efforts? These are the kinds of questions your board needs to be asking if it is going to hold itself accountable to your owners for the interpretation and pursuit of their interests. All of these questions about the definition of success—the answers to which become, in Policy Governance terms, your Ends—will be detailed much more fully in Chapter Five.

Safe and Ethical Operation

Your owners rely on their asset—your organization—to produce the value they desire. Thus, they want their board to use that asset in a manner that does not exceed their appetite for risk nor breach their ethical standards. In this way, the board's relationship with its ownership provides not only its ultimate direction in terms of the value it exists to produce but also a barometer for its attitude toward risk as well as its moral compass. These questions of safety and ethics will be addressed in much more detail in Chapter Six.

A Great Board

Your owners would like you to be a great board, which, very broadly speaking, means that they want you to produce value in a safe and ethical manner. But there are other components involved in being a great board that you might reasonably expect owners to cite; some of these are outlined in the following list:

Characteristics That Owners Might Expect of a Great Board

Uncompromising in its allegiance to owners' interests. Board members should be as free from conflicts of interest as possible. Boards should have clear processes to ensure that any unavoidable conflicts are declared and then managed effectively.

Focused on the best interests of all owners. Boards should strive to ensure that they can justify everything they do as being in the best interests of all owners (including, to an appropriate degree, the best interests of future owners). Board members should not pursue the interests of any subset of owners to the exclusion of other owners.

Able to ensure successful, safe, and ethical operation. Boards should be able to assure their owners that their organization is delivering a reasonable interpretation of their best interests in terms of a successful, safe, and ethical operation.

Disciplined enough to act as a group authority. Owners' authority lies in the board as a whole and not in any one board member. Even if your board members were appointed or elected as individuals, they were all appointed or elected to govern everything on behalf of everyone. Thus, owners need their board members to be disciplined enough to act as a principled group authority rather than as individual players in a personality-driven combat zone.

Diverse enough to make wise decisions. Wise decisions are decisions that have been arrived at through examining multiple viewpoints. Owners expect boards to bring to bear a variety of opinions and outlooks that reflect their own diversity.

Willing to get independent expert help when needed. Owners need boards to be humble enough to know what they don't know, realistic enough to know that they can never know everything, and willing to get the advice they need when they need it.

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In command. Owners need boards to be leaders, not followers—that is, clearly in charge, providing proactive leadership that transcends the executives of the month. Owners need boards to be clear and firm about what their expectations are and who has what authority.

In communication. Owners need boards to use regular communication with them to create the organization's future and be accountable.

Aware of the value of their own role. Owners need boards to value their role as ownership representatives and invest in the education and administrative resources needed for good performance.



The preceding section is a brief and general overview of what your owners are likely to want from you. Clearly, you need to get more specific, and to do that, you are going to have to engage your owners in some sort of dialogue.

BUILDING OWNER RELATIONS

For-profit corporations have long recognized investor relations as a discipline. In this book, I use the term *owner relations* and interpret the function in a manner that is applicable to all types of organizations. Owner relations is a fundamental, indeed, the first job of a board. To help it fulfill this function, the board may employ others, including the CEO, but it is vital that the board recognizes that it always remains directly and fully accountable for the successful performance of owner relations.

The Importance of Owner Relations

Every board needs good relations with its owners because

- Owners' authority legitimizes the board's authority—or not!
- Owners are the people to whom the board ultimately has to account for everything.
- The interpretation and fulfillment of owners' best interests is what unifies board members in common cause; it is their group job.
- The board's interpretation of owners' best interests provides its ultimate touchstone for making difficult governing choices.

- The board's role as owners' representative distinguishes its role from the role of the organization's CEO and staff.
- A clear hold on the best interests of owners as a whole enables the board to insulate itself and the organization's CEO from pressures that could divert the organization from achieving its goals.

Designing Your Owner Relations Strategy

In the sections that follow, I outline the elements that a good owner relations strategy must address. Some of these elements will be explicitly stated in your Governance Process policies; others will simply inform your policies in this area.

Define Your Commitment to Owners You will need to define your commitment to your owners and craft this definition into a clear statement that will ultimately become a part of your Governance Process policies. Even though we are not addressing how to write policies in this chapter, it will be useful to look at some examples of ownership statements in order to get a feel for the nature of the commitment to ownership that Policy Governance calls for. You will find some sample statements in Tool 3.1 at the end of this chapter.

Clarify Your Purpose Your overall purposes in connecting with your owners are likely to fall into the following categories:

- To engage them in responsible ownership
- To be accountable to them
- To create the future they want

In the first category, place activities that have to do with educating owners about ownership and discussing what ownership means in the context of your organization and all the other roles being played within it. In the second category, include all the reporting you want to do about your organization's progress toward accomplishing your owner's wishes, including the annual report that you are obliged to give at your annual general meeting. In the last category, put whatever consultations you intend to hold with your owners to ensure that you are getting their input to help you develop your policies and particularly your Ends policies.

Create a Plan Board time is very precious; there is so much to govern and so little time together to do the governing. Planning, therefore, will be a key to

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ensuring that your board follows through on its commitments, including the commitment to communicate with owners. A plan might set forth a time every year when the board will meet with owner representatives or when board representatives will meet with important groups within the ownership. It may identify a time when the board will send out questionnaires and gather information or, conversely, a time when the board will share important information with the ownership. (Tool 3.2 provides an example.) Your board's owner relations plan can use whatever time frame makes the most sense, but you will probably want to plan for a year at a time at the minimum and three years at maximum. Once your plan is complete, you can enter all the key dates on your annual board calendar. (An example of an annual board calendar can be found in Tool 8.8 at the end of Chapter Eight.)

Set the Context If your board thinks that its owners are important, it is likely that your owners will be able to tell that from the way your board communicates with them. Indeed, however the board thinks about its owners is likely to show up in its communication. So it is very important for your board to discuss in advance the kind of relationship it wants with the owners of your organization and to let them know that before attempting to engage them in conversation. In other words, as in any relationship, you don't just jump in with assertions and demands; you establish or reestablish the relationship first.

Ask Intelligent Questions As the adage goes, "Ask a stupid question, and you'll get a stupid answer." Conversely, treat people as intelligent human beings and face them with big, difficult questions, and they will rise to the occasion. In involving your owners in discussions about your organization's future, your board will often be asking them to think deeply about things that they have not considered before. For that you will need well-crafted questions, which, if you get them right, can produce a wealth of new perspectives and possibilities. It is important that your owners understand that there are no wrong answers and that you tell them how you are going to use their answers and then report back afterward about how you have used them. Do not promise more than you really mean to deliver.

As an illustration, let us take the board of a public hospital that wants input from its local community members as owners of the hospital on what they would like to see as the hospital's priorities in the future. Asking "What do you

think this hospital should do in the future?” is likely to produce a long list of items that stem from people’s own personal experience as users of the hospital. However, clearly showing those same people the sources and amounts of the hospital’s likely income over the next thirty years and asking their opinions on the options that the board is considering for prioritizing particular results for particular patients within that income should produce some rich and meaningful owner input.

Be Truly Representative For the boards of organizations with large and diverse ownership, being representative cannot mean relying on the input of individual board members who have been elected or appointed by specific sections of the ownership. The whole board (and each of its members) is responsible for seeking to represent the interests of the entire ownership and has the resources to come up with far superior ways of finding out what ownership groups think, as illustrated below.

Choosing Your Tools for Communicating with Owners

Your board’s every interaction with your owners, individually or in groups, is an opportunity to educate owners as well as to get their input. Many communication tools are available to help your board create more and better dialogue. In Table 3.1, you will find suggestions for various tools that your board might want to consider, depending on what it wants to achieve.

If your ownership is a large group, your board will need to consider whether to use tools that provide broad outreach, such as direct mail, mass media, or telephone polling. The Internet opens all sorts of possibilities, such as using other media to direct people to your Web site, which can offer information and interaction.

There are many useful book and Web-based resources on community engagement and social capital that your board might like to review in building its owner relations strategy. For example, *The Wisdom Of Crowds* by James Surowiecki (2004) provides fascinating perspectives on the value that can be derived from large scale outreach. Web sites on community engagement include a how-to guide from the Scottish Government (n.d.) and a collection of resources at www.bettertogether.org based on Robert Putnam and Lewis Feldstein’s *Better Together: Restoring the American Community* (2003). Another example of a rich Web resource is the results of the *Proceedings* from the Fifth International Conference

Table 3.1
Board Tools for Owner Relations

	EDUCATING OWNERS	BEING ACCOUNTABLE TO OWNERS	CREATING THE FUTURE WITH OWNERS
Goals	Owners are informed about the privileges and responsibilities of ownership and the opportunities for exercising their legal and moral rights.	Owners are informed about the performance of their organization in relation to their wishes.	Owners' wishes are translated into informed decisions about organizational purpose and standards of ethics and prudence.
Promises	"We will always welcome and encourage your active participation as owners."	"We will regularly report to you in an open and honest manner."	"We will involve you in helping us to determine what our strategic outcomes and standards of ethics and prudence should be. We will take account of all your input and let you know how it influenced our decision making."
Tools to Consider	<ul style="list-style-type: none"> Owners' guide New board member search Brochure Web site Meetings Workshops Expert informants Newsletters Media releases Open board meetings 	<ul style="list-style-type: none"> Annual meeting Annual report Videotaped board meetings Web site Newsletters Media releases Road shows 	<ul style="list-style-type: none"> Advisory groups Roundtable discussions Joint meetings with other organizations Open forums Brown-bag lunch discussions Focus groups Needs assessments Impact studies

on Engaging Communities (2005), an initiative of the United Nations and the Queensland Government held in Brisbane, Australia, in 2005.

However, there is no need to get carried away. Even if your ownership is a large group, your board may be better off looking at more targeted options for reasons of cost and quality. For example, a focus group is often more productive than a public meeting. It is better to embark on a course that you are committed to fulfilling than to be overly ambitious and end up disappointing yourselves and your owners.

Tools for Responsible Ownership Engagement Thinking through what your board needs from your owners in order to govern responsibly on their behalf will help the board select the tools to use to promote responsible ownership engagement. Tool 3.3 at the end of this chapter is a summary of expectations that a board may have of its owners. This document is written to be shared with owners and can be adapted in any way that fits your organization.

As a general resource, why not create an owners' guide to your organization that board members can distribute to owners whenever and wherever they meet them? This tool can help board members, too, who can use it to remind themselves of the main points that they want to communicate to owners. Tool 3.4 at the end of this chapter provides a suggested table of contents for such a guide.

Tools for Being Accountable to Owners Every board's standard reporting tools are the annual report and financial accounts that are presented at the annual meeting of legal owners. These tools are good opportunities not only for reporting but also for more general owner education; thus, you might consider producing a short version of the annual report for wider distribution. Using the Policy Governance system, however, your board can go much further. As we shall see in the next two chapters, in the Policy Governance system, the policies that your board creates will be the standards that it uses for governing your organization on behalf of its owners. Thus, reporting to your owners becomes a straightforward matter of reporting on the criteria that have been established and how the organization is doing against them. Once your board has its policies in place, it may want to consider making them available to your owners. Many boards post their policies on their organization's Web site, along with an explanation of how they have organized themselves according to the Policy Governance system. Your board might also want to make its agendas and minutes available online.

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Implementation

Our Chief Governance Officer is the board member responsible for ensuring implementation of this plan. He or she may delegate authority to others to fulfill the plan but remains accountable for the plan. *Budget required:* The board needs to determine a budget for production of the ownership guide and questionnaire, questionnaire analysis, Web site work, travel costs, and summer owners' meeting costs, including facilitation.



TOOL 3.3 THE BOARD'S EXPECTATIONS OF THE OWNERS

This tool is designed for sharing with your owners to help them understand your role on their behalf and your expectations of them in their role as owners.

As the board of *[insert the name of your organization here]*, we are committed to governing your organization in a responsible manner. Here are some ways that you, our owners, can help us to do a good job on your behalf.

Care for the Whole Organization

We need our owners to care for our organization as a whole and to give us their input. If you have suggestions or concerns it will be extremely helpful if you can express them in relation to care of the organization as a whole.

Care for Yourself and Others

We need our owners to care for our organization on behalf of themselves *and* others and to give us their input. If you have suggestions or concerns, it will be extremely helpful if you can express them in relation to the best interests of all owners.

Engage as an Owner

Responsible owners engage with the organizations they own—for example, by attending annual owners' meetings, standing for board

election, responding to board communications, or raising overall issues and concerns. We hope you will engage with us in helping to make your organization as successful as possible in fulfilling your wishes for it. Details of current opportunities for owners to engage with [*insert the name of your organization here*] are available at [*enter details*].

Keep the Owners' Communication Channel Open

Responsible owners do not block ownership communication channels with questions and issues that are about individual customer concerns. The board needs to approach its job from the perspective of ownership and therefore cannot allow itself to be dominated by individual customer concerns.

The board has ensured that staff members have a process for dealing with individual customer concerns that is easily accessible and treats customers in a timely, open, and respectful manner. Our policy is available at [*enter details*]. The board regularly monitors the organization's performance against this policy and handles any issues of noncompliance. If you have any complaints or concerns about the treatment of your own customer concerns or those of anyone you know, please contact [*enter appropriate staff contact information*].



TOOL 3.4 SUGGESTED TABLE OF CONTENTS FOR AN OWNER'S GUIDE

1. The importance of ownership
2. Your role as an owner
3. The role of the board as owner-representative
4. How you can participate in creating the board's leadership
5. The board and its operations
 - a. Who we are, how we got here, what we do
 - b. How we engage with and account to you as owners
 - c. How we evaluate and report organizational performance
 - d. How we evaluate and report board performance

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6. Current and likely future ownership issues
 7. Getting your issues/concerns to the right place
 - a. The difference between owner and customer issues
 - b. How, when and where you can input to the board as an owner
 - c. How, when, and where you can provide input to staff as a customer
 8. Our commitment to you and your organization
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