Board Education Session Four

July 27, 2010

Creating Board–Executive Delegation Policies,

Beginning to Frame Outcomes Policies,

and Preparing for the Transition

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PRE-MEETING ASSIGNMENT

In advance of the July 27 session, we request that you read all materials in this Session Four packet:

- Review the updated Executive Limitations policies (Document 4.1) and make note of anything you absolutely can't live with at this point in the drafting process. We'll address those concerns quickly at the start of the meeting.

- Finalize your notes on the Board–Executive Delegation policies worksheet attached as Document 4.2. Note that this worksheet appears exactly as presented in the Session Three packet, so feel free to use Document 3.2 instead.

- Read the two articles included in your packet. These contain essential wisdom to guide our conversations about Outcomes policies and defining the utility's "owners."

- Call or write A.B. Orlik if you get stuck in your preparation: 608.334.9097 or abo@writingbarefoot.com.

File Documents 4.0, 4.1 and 4.2 behind Tab 4 in your binder. File the two articles behind Tab 6.

As with each session, please bring your binder and, if you are absent, expect a catch-up call shortly after the meeting. If you know in advance that you will not be at this or a future meeting, please notify Amy Robb or A.B. Orlik as soon as possible so we can schedule your catch-up call.

RECAPPING SESSION THREE

In Session Three we created Executive Limitations policies. Document 4.1 has been modified to reflect this work. We will make any critical modifications to and provisionally approve these policies in Session Four.

CONTEXT FOR SESSION FOUR

In transitioning to Policy Governance, Carver recommends that boards first create all policies except Ends/Outcomes. With these policies the system as a whole is ready to put into place.

In Session Four we will create Board–Executive Delegation policies, the last of the non-Outcomes policy types. From there, Carver suggests adopting a single temporary Outcomes policy so implementation can proceed. He does so for two reasons.

First, Outcomes policies take longer than the others to develop. Outcomes policies cannot be adapted from a model. They must be developed to reflect the unique contribution of a particular organization serving a particular ownership at a particular point in time. Nearly all boards seek additional information and engage their owners and staff as they go about defining Outcomes. The desired result is a set of well-crafted statements in which every word counts. With Outcomes statements, more than any other policy type, impeccability in the use of language is essential. And that impeccability also takes time.

Second, development of Outcomes policies never stops. The board's work in connecting with owners and refining Outcomes goes on in perpetuity. From one board highlighted in The Policy Governance Fieldbook (edited by Caroline Oliver) we learn, "The board really likes this serious

[Outcomes] discussion. There is overwhelming support on the board to spend our time here. No one on the board wants to go back to approving what kind of tables we buy for the conference room. ... Everything is much clearer."

So, while we will begin the work of defining ownership and developing Outcomes policies if we have time at the end of Session Four, we also may consider adopting a temporary policy to fill the implementation gap, something like this:

> *Whatever Outcomes the board has stated or implied in previous discussions or approvals will stay unchanged, pending formal adoption of Outcomes policies.*

With this temporary measure in place, the board can look ahead to next steps in the implementation process. We will review these steps during Session Four.

- **Complete an administrative check.** The motion putting Policy Governance policies into effect will, at the same time, repeal or incorporate previous board documents, so it is important to check that these new policies are comprehensive and do not conflict with City ordinances. Tom will complete this review before Session Five, so any gaps or inconsistencies can be addressed then.

- **Draft first policy agendas.** Because board agendas will alter dramatically once Policy Governance is in place, it's useful to establish the first few agendas before transitioning. It's likely that Outcomes development and owner linkage will feature prominently in these agendas, drafts of which will be available at Session Five in August.

- **Set the "go live" date.** Set a date to inaugurate the new system and switch completely in one move—perhaps at the end of Session Five. On the implementation date, all provisionally adopted policies become effective and all previous board pronouncements still affecting the present and future are terminated. Acknowledge yourselves and celebrate, either right then or at the next board meeting.

- **Govern as a policy board.** Begin the real work of a Policy Governance board: Continual attention to Outcomes and meaningful linkage with owners as well as board improvement through self-evaluation and ongoing learning. Remember to repeal the temporary Outcomes policy once a sufficient set of Outcomes policies is in place.

BOARD-EXECUTIVE DELEGATION POLICIES

First, however, we return to Board-Executive Delegation policies. Recall that under Policy Governance, the relationship between the board and the chief executive is of utmost importance because the chief executive (in this case, the General Manager) is the only legitimate link between the board and the organization as a whole.

Except for a relatively few unique functions of the board, almost all organizational activities of the Madison Water Utility are performed by staff under authority delegated by the General Manager. The board does not "run" the utility day-to-day. Instead, the board delegates to the General Manager the authority to manage the utility—and then holds the General Manager accountable.

Under the Policy Governance model, the General Manager is accountable to the board for:

- Achievement of its Outcomes (*Ends*) policies
- Not violating its Executive Limitations (*Means*) policies

That's the long and the short of the job. By this definition, the General Manager is accountable to the whole board for no less than the entire product and behavior of the utility. All staff accountability accumulates upward to the General Manager.

This highly focused job description is viable only when the board does its job and describes its expectations in clear, unambiguous policy terms. The board's job, in this context, is to define the General Manager's *accountabilities* (not *responsibilities*) through policy. The roles and job products of the board and its chief executive are therefore truly separate and distinct. In fact, Carver's circles (here represented as a rectangle) delineate these roles.

On the left are two categories of **board** means. Accountability for adhering to these policies falls to the chief governance officer—in this case, the **Board President**.

On the right are **staff** outcomes and means. Accountability for adhering to these policies falls to the chief executive officer—in this case, the **General Manager**.

Board Process	**Outcomes**
Board-Executive Delegation	**Executive Limitations**

We have defined half of the role and job products of the board in provisionally approved Board Process policies. We will complete the other half when we create Board–Executive Delegation policies in Session Four.

We completed half of the General Manager's accountability in Session Three by creating Executive Limitations policies. We will return to the other half when we create Outcomes policies in Sessions Four and Five.

Your assignment in advance of Session Four is to review your notes on the Board–Executive Delegation policies worksheet attached as Document 4.2 (identical to Document 3.2 from our last meeting). In engaging with this document you may find yourself uncovering and articulating deeply-held values about the utility's purpose, responsibility, structure, and future. That's perfect. In many organizations these values go unexpressed, and activity proceeds (or not) by default. Examining the unexamined foundation of the board and utility is one of the intentions of this work.

PARKING LOT

Before we wrap up Session Four, we will review the "parking lot" from previous sessions and make sure we've either covered or deferred each item.

Board Process	Outcomes
Board means—what is expected, acceptable, and unacceptable in the conduct of the board's own operation	Staff ends—what benefits (or difference or outcomes) the Madison Water Utility is to produce for whom at what cost or relative worth
From the parking lot: > Specific owner input processes > Board calendar / required items	From the parking lot: > Defining ownership > Defining "appropriate results for appropriate persons at appropriate cost" > Defining peer utilities

Board-Executive Delegation	Executive Limitations
Board means—how the board delegates to the General Manager and monitors proper use of delegated authority From the parking lot: > Independent verification of GM's policy performance	Staff means—proscriptive description of situations, behaviors, actions, practices and conditions unacceptable to the board even if effective From the parking lot: > Budgeting/financial management > Staff/media relationships

Now let's move on to the remaining documents for use at the July 27 meeting:

- Document 4.1: Executive Limitations Policies (for provisional approval)
- Document 4.2: Board–Executive Delegation Policies (for discussion)
- *Understanding the Special Board-Ownership Relationship* from <u>John Carver on Board Leadership</u>
- An excerpt from *Ends Policies: The Real Bottom Line*, Chapter 7 of <u>Reinventing Your Board</u> by John Carver and Miriam Carver

DRAFT Water Utility Board Policy		
Provisionally Adopted:	Title:	**Global Executive Constraint**
Adopted:	Policy Number:	**EL – 1**
Revision #/Date:	Category:	Executive Limitations

The General Manager shall not:

- Knowingly cause or allow any practice, activity, decision, or organizational circumstance that is unlawful, unethical, or contrary to commonly accepted public administration principles and professional ethics;

- Jeopardize the health and safety of the public nor sustainable operation of the utility;

- Fail to conduct all endeavors with integrity and mutual respect.

DRAFT Water Utility Board Policy		
Provisionally Adopted:	Title:	**Treatment of Consumers**
Adopted:	Policy Number:	**EL – 2A**
Revision #/Date:	Category:	Executive Limitations

With respect to customers and consumers, the General Manager shall not cause or allow conditions, procedures, or decisions that are unsafe, untimely, or undignified, or that fail to provide appropriate confidentiality or privacy.

Accordingly, the General Manager shall not cause or allow conditions, procedures, or decisions that:

1. Fail to establish with consumers a clear understanding of their rights and what may be expected from the services offered by the Madison Water Utility.

2. Fail to maintain a process for accessible, fair, efficient and unbiased handling of complaints and issues, including a grievance process for those who believe they have not been accorded a reasonable interpretation of their rights under this policy.

3. Fail to inform and educate consumers and customers about water and water utility services, events, research, or developments (like construction).

4. Fail to comply with state and federal primary drinking water regulations and associated public notification requirements.

5. Fail to achieve board-adopted water quality goals, incorporated by attachment.

DRAFT Water Utility Board Policy		
Provisionally Adopted:	Title:	**Treatment of Staff**
Adopted:	Policy Number:	**EL – 2B**
Revision #/Date:	Category:	Executive Limitations

With respect to interactions with staff, the General Manager shall not cause or allow conditions, procedures, or decisions that:

1. Violate the City's staff treatment policies.

2. Fail to periodically assess the organizational climate.

3. Fail to promote activities that enhance the organizational climate.

4. Discourage staff members from communicating with the board at a scheduled board meeting.

DRAFT Water Utility Board Policy		
Provisionally Adopted:	Title:	**Financial Planning/Budgeting**
Adopted:	Policy Number:	**EL – 2C**
Revision #/Date:	Category:	Executive Limitations

The General Manager shall not cause or allow financial planning to deviate materially from the board's Outcomes priorities, risk financial jeopardy, or fail to be derived from a multiyear plan.

Accordingly, the General Manager shall not cause or allow conditions, procedures, or decisions that:

1. Allow budgeting which would risk incurring those situations or conditions described as unacceptable in the Financial Condition and Activities policy (EL – 2D).

2. Fail to provide the full amount established by the board according to the Agenda Planning to Achieve Board Outputs policy (BP – 2C).

DRAFT Water Utility Board Policy		
Provisionally Adopted:	Title:	**Financial Condition and Activities**
Adopted:	Policy Number:	**EL – 2D**
Revision #/Date:	Category:	Executive Limitations

With respect to the actual, ongoing financial condition and activities of the Madison Water Utility, the General Manager shall not cause or allow the development of fiscal jeopardy or a material deviation of actual expenditures from board priorities established in Outcomes policies.

Accordingly, the General Manager shall not cause or allow conditions, procedures, or decisions that:

1. Fail to ensure long-term financial health.

2. Fail to present a balanced annual operating budget and quarterly updates on actual expenditures and income.

3. Exceed total appropriations for the fiscal year, unless directed to do so by the board.

4. Use any dedicated reserves for purposes other than those for which they are designated, unless directed to do so by the board.

5. Undertake a debt without payoff schedule and identification of revenue stream.

6. Fail to establish an unrestricted reserve equal to a typical three months' operating expenses.

7. Fail to inform the board of where the utility stands with any current rate case in progress.

DRAFT Water Utility Board Policy		
Provisionally Adopted:	Title:	**Emergency General Manager Succession**
Adopted:	Policy Number:	**EL – 2E**
Revision #/Date:	Category:	Executive Limitations

To protect the board and utility from sudden loss of General Manager services, the General Manager shall not fail to ensure that at least two other identified managers are sufficiently familiar with board and General Manager issues and processes that either would be able to take over with reasonable proficiency as an interim successor.

DRAFT Water Utility Board Policy		
Provisionally Adopted:	Title:	**Asset Protection**
Adopted:	Policy Number:	**EL – 2F**
Revision #/Date:	Category:	Executive Limitations

The General Manager shall not cause or allow utility assets to be unprotected, inadequately maintained, or unnecessarily risked.

Accordingly, the General Manager shall not cause or allow conditions, procedures, or decisions that:

1. Fail to comply with City policies regarding asset protection.

2. Fail to ensure water availability for future and current customer needs through long-term resource supply and demand analysis, conservation and public education.

3. Use or permit the use of water by others outside the Madison Water Utility's existing water service area, unless in compliance with Madison General Ordinances (if applicable) and the City of Madison's Comprehensive Plan.

4. Fail to support annual professional development opportunities for the General Manager and staff that are well focused and appropriate to Outcomes or specifically designed to improve professional skills.

5. Endanger the utility's public image or credibility.

6. Fail to follow the auditor's recommended internal controls.

DRAFT Water Utility Board Policy		
Provisionally Adopted:	Title:	**Infrastructure**
Adopted:	Policy Number:	**EL – 2G**
Revision #/Date:	Category:	Executive Limitations

The General Manager shall not cause or allow conditions, procedures, or decisions that prevent the Madison Water Utility from meeting its obligation to serve current and future generations of customers within the City of Madison and its authorized service areas.

Accordingly, the General Manager shall not cause or allow conditions, procedures, or decisions that:

1. Fail to assure that required rates fund all expenditures for timely and prudent capital improvements to existing utility systems, and that those capital improvements are driven by reliability, operational or regulatory requirements, replacement of aging infrastructure, utility relocations for public works and road projects, or extension of the life of existing systems.

2. Fail to identify and plan for resource and infrastructure needs for the provision of water service to customers within the City of Madison and the Madison Water Utility's service areas consistent with a reasonable planning period for that service.

3. Fail to coordinate Madison Water Utility activities and policies with the City of Madison's Comprehensive Plan and other relevant guidelines for community development.

4. Fail to consider participation with other governmental or private entities on regional major water infrastructure or water supply planning projects.

DRAFT Water Utility Board Policy		
Provisionally Adopted:	Title:	**Communication and Support to the Board**
Adopted:	Policy Number:	**EL – 2H**
Revision #/Date:	Category:	Executive Limitations

The General Manager shall not cause or allow the board to be uninformed or unsupported in its work.

Accordingly, the General Manager shall not cause or allow conditions, procedures, or decisions that:

1. Fail to submit monitoring data required by the board (see Board–Executive Delegation policies) in a timely, accurate, and understandable fashion, directly addressing provisions of board policies being monitored, and including General Manager interpretations consistent with the Board–Executive Delegation policies.

2. Allow the board to be unaware of any actual or anticipated noncompliance with any Outcomes or Executive Limitations policy of the board regardless of the board's monitoring schedule.

3. Allow the board to be without such information as may be required periodically for fully informed board deliberations and choices, including internal and external data as well as staff and external opinions and points of view.

4. Allow the board to be unaware of any significant incidental information it requires including

   a. relevant trends

   b. anticipated adverse media coverage

   c. significant public reaction

   d. anticipated or pending lawsuits

   e. unusual or exceptional purchases

   f. material internal and external changes, particularly those that affect the assumptions on which previous board policies have been established

5. Present information in unnecessarily complex or lengthy form or in a form that fails to differentiate among three information types (as defined in the Policy Governance context):

   a. monitoring—includes regularly scheduled monitoring data as well as notices of actual or anticipated noncompliance with Outcomes or Executive Limitations policies

   b. decision preparation—includes information required for fully informed board deliberations

   c. other—includes significant incidental information as outlined above

6. Fail to submit to the board a consent agenda containing items delegated to the General Manager yet required by law, regulation, or contract to be board-approved, along with such monitoring assurance as may be relevant.

7. Fail to provide, or delay the provision of, negative information regarding the utility's performance, staff, or image.

8. Fail to advise the board if, in the General Manager's opinion, the board is not in compliance with its own policies on Board Process and Board–Executive Delegation, particularly in the case of board behavior that is detrimental to the work relationship between the board and the General Manager.

9. Fail to deal with the board as a whole.

10. Fail to provide a workable mechanism for official board, officer, or committee communications.

DRAFT Water Utility Board Policy		
Provisionally Adopted:	Title:	**Quality and Performance Improvement**
Adopted:	Policy Number:	**EL – 2I**
Revision #/Date:	Category:	Executive Limitations

In all aspects of utility performance, the General Manager shall not fail to demonstrate continuous monitoring and needed improvement.

Board Education
Session Four – July 27
DOCUMENT 4.2

POLICY WORKSHEET
Board–Executive Delegation Policies

In creating Board–Executive Delegation policies, the board explicitly defines the essential elements of its relationship with the General Manager. Specifically, these policies address how the board:

- Provides direction to the General Manager
- Delegates authority to the General Manager
- Monitors the General Manager's compliance and performance

These are board means policies, so ensuring their accomplishment falls to the chief governance officer—in this case, the Board President.

The worksheet

The following pages contain possible Board–Executive Delegation policies. In addition to a draft global policy, the worksheet includes sample policies regarding:

- Unity of Control

- Accountability of the General Manager

- Delegation to the General Manager

- Monitoring the General Manager's Performance

To make the best use of our time together on July 27, we ask that before Session Three you:

- Review the worksheet in its entirety.

- Make thorough notes in these pages reflecting your values and preferences—whether to adopt a draft policy as written; edit it to better express your values; eliminate those that, in your opinion, are overly specific or do not apply to the utility; and write new ones in areas not covered.
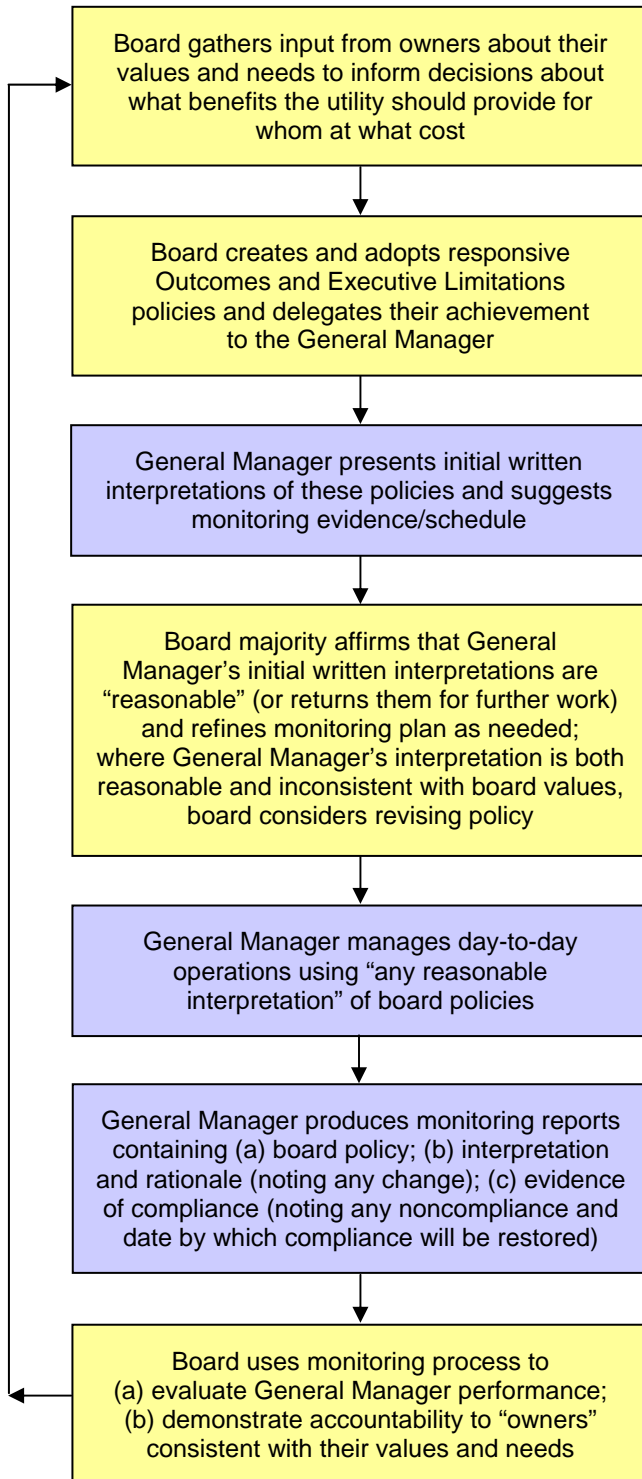
Looking ahead: Notes about monitoring

If the board chooses to adopt the policies it creates through this series of educational sessions, the General Manager will be accountable to the board from then forward for achievement of its Outcomes (*Ends*) policies and not violating its Executive Limitations (*Means*) policies. Monitoring the General Manager's achievement of Outcomes and compliance with Executive Limitations, therefore, will be central to the board–General Manager relationship.

This kind of monitoring is as complex as it is important. Boards often need time, patience, learning and experience to develop a system in which they are monitoring enough of the right thing without

creating overwhelm or misunderstanding. The system should provide appropriate and necessary reporting with sufficient and timely information to determine compliance under the General Manager's "reasonable interpretation" policy feature of Policy Governance.

Snapshot of Accountability Delegation

Board gathers input from owners about their values and needs to inform decisions about what benefits the utility should provide for whom at what cost

↓

Board creates and adopts responsive Outcomes and Executive Limitations policies and delegates their achievement to the General Manager

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General Manager presents initial written interpretations of these policies and suggests monitoring evidence/schedule

↓

Board majority affirms that General Manager's initial written interpretations are "reasonable" (or returns them for further work) and refines monitoring plan as needed; where General Manager's interpretation is both reasonable and inconsistent with board values, board considers revising policy

↓

General Manager manages day-to-day operations using "any reasonable interpretation" of board policies

↓

General Manager produces monitoring reports containing (a) board policy; (b) interpretation and rationale (noting any change); (c) evidence of compliance (noting any noncompliance and date by which compliance will be restored)

↓

Board uses monitoring process to (a) evaluate General Manager performance; (b) demonstrate accountability to "owners" consistent with their values and needs

The process of delegating and monitoring accountability for results begins with the board crafting and adopting Executive Limitations and Outcomes policies based on the values and needs of the utility's owners. A provisional set of these policies will be drafted by the end of Session Five.

Next, the General Manager develops and presents for board approval his initial written interpretation of each policy and the nature and extent of "evidence" he will present on a scheduled basis in monitoring reports. When the majority of the board agrees that these initial interpretations are reasonable, the General Manager has room to move forward. If the board considers an interpretation both reasonable *and* inconsistent with the board's intention or values, the board may, at its discretion, revise the policy.

The board may adopt or modify the General Manager's monitoring recommendations, and may choose to supplement the General Manager's monitoring reports with special reports from independent parties (e.g., financial audits or DNR sanitary surveys) and even direct inspection in those relatively rare instances where the board itself must be involved in gathering needed information. Together these reports become the primary basis by which the board monitors and evaluates the General Manager's performance and demonstrates accountability to "owners."

To document monitoring agreements, the board may wish to list the type, source, and frequency of monitoring with each policy in the policy manual. As a complement to formal policy statements, the board also may wish to establish procedural guidelines containing a big-picture monitoring schedule or calendar.

The draft policies contained in this worksheet anticipate this unfolding process.

DRAFT Water Utility Board Policy		
Provisionally Adopted:	Title:	**Global Board–Executive Delegation Policy**
Adopted:	Policy Number:	**BED – 1**
Revision #/Date:	Category:	Board–Executive Delegation

Pursuant to Madison General Ordinance 13.01, the Water Utility Board is charged with management and operation of the Madison Water Utility.

All authority and accountability delegated by the Water Utility Board to the staff of the Madison Water Utility shall be delegated through the General Manager.

DRAFT Water Utility Board Policy		
Provisionally Adopted:	Title:	**Unity of Control**
Adopted:	Policy Number:	**BED – 2A**
Revision #/Date:	Category:	Board–Executive Delegation

Only decisions of the board acting as a body are binding on the General Manager.

Ask: *Is this language sufficient?*
If so, you're done. If not, consider the following options for additional detail.
Adopt, modify, add, or discard to suit your preference.

❑ a. Decisions or instructions of individual board members, officers or committees are not binding on the General Manager unless the full board has authorized the exercise of such authority.

❑ b. The General Manager retains the authority to refuse requests from individual board members or committees for information or assistance made without specific board authorization.

DRAFT Water Utility Board Policy		
Provisionally Adopted:	Title:	**Accountability of the General Manager**
Adopted:	Policy Number:	**BED – 2B**
Revision #/Date:	Category:	Board–Executive Delegation

The General Manager is the board's only link to the utility's achievement and conduct. Thus, as far as the board is concerned, all authority and accountability of staff is the authority and accountability of the General Manager.

Ask: *Is this language sufficient?*
If so, you're done. If not, consider the following options for additional detail.
Adopt, modify, add, or discard to suit your preference.

❑   a.   Neither the board as a body nor individual board members will give instructions to persons who report directly or indirectly to the General Manager.

❑   b.   The board as a body and individual board members will refrain from evaluating (formally or informally) the overall job performance of any staff other than the General Manager.

DRAFT Water Utility Board Policy		
Provisionally Adopted:	Title:	**Delegation to the General Manager**
Adopted:	Policy Number:	**BED – 2C**
Revision #/Date:	Category:	Board–Executive Delegation

The board will instruct the General Manager through written policies which prescribe the organizational Outcomes to be achieved and which describe organizational situations and actions to be avoided, allowing the General Manager to use any reasonable interpretation of these policies.

Ask: *Is this language sufficient?*
If so, you're done. If not, consider the following options for additional detail.
Adopt, modify, add, or discard to suit your preference.

❑   a.   The board will develop policies instructing the General Manager to achieve certain results for certain recipients at specified costs. These policies will be developed systematically from the broadest, most general level to more defined levels, and will be called Outcomes policies.

❑   b.   The board will develop policies that limit the latitude the General Manager may exercise in choosing organizational means. These policies will be developed systematically from the broadest, most general level to more defined levels, and will be called Executive Limitations policies.

❑   c.   Upon receipt of any new or modified board-approved Outcomes policy or Executive Limitations policy, the General Manager will submit his or her initial written interpretation of that policy for board approval.

❑   d.   As long as the General Manager makes any *reasonable interpretation* of the board's Outcomes and Executive Limitations policies, the General Manager is authorized to make all decisions, take all actions, establish all practices, and develop all activities for the successful achievement of the board's Outcomes policies within the boundaries of its Executive Limitations policies.

❑   e.   The board may change its Outcomes and Executive Limitations policies, thereby shifting the boundary between board and General Manager domains. By doing so, the board changes the latitude of choice given to the General Manager, but as long as any particular delegation is in place, the board will respect and support the General Manager's choices.

DRAFT Water Utility Board Policy		
Provisionally Adopted:	Title:	**Monitoring the General Manager's Performance**
Adopted:	Policy Number:	**BED – 2D**
Revision #/Date:	Category:	Board–Executive Delegation

Systematic and rigorous monitoring of the General Manager's performance will be based solely on her or his only expected job outputs: the utility's accomplishment of the board's Outcomes policies and operation within the boundaries established by the board's Executive Limitations policies.

Ask: *Is this language sufficient?*
If so, you're done. If not, consider the following options for additional detail.
Adopt, modify, add, or discard to suit your preference.

❑ a. Monitoring data are simply those data used to determine the degree to which board policies are being met. Other types of data the board may review to develop policy or increase knowledge regarding the utility will not be considered monitoring data.

❑ b. The board will acquire monitoring data by one or more of three methods:

   o By internal report, in which the General Manager discloses compliance information to the board

   o By external report, in which an external, disinterested third party selected by the board assesses compliance with board policies (includes reports from the City Auditor)

   o By direct board inspection, in which a member or members of the board delegated by formal action of the board assess compliance with appropriate policy criteria

❑ c. All policies that instruct the General Manager will be monitored at a frequency and by a method chosen by the board. The board can monitor any policy at any time by any method, but will ordinarily depend on a routine schedule. *(This schedule could be detailed further in a procedural guideline.)*

JOHN CARVER

ON BOARD
LEADERSHIP

SELECTED WRITINGS FROM
THE CREATOR OF THE WORLD'S
MOST PROVOCATIVE AND
SYSTEMATIC GOVERNANCE MODEL

JOHN CARVER

FOREWORD BY SIR ADRIAN CADBURY

Understanding the Special Board-Ownership Relationship

BOARD LEADERSHIP, NUMBER 18, MAR.-APRIL 1995

NONPROFIT—and sometimes public—boards are often like employees in search of a boss. Where does their authority come from? When we speak of board effectiveness, on whose behalf is this effectiveness attained? When public and quasi-public boards are referred to as *civic trustees,* whose trust do they serve? Of course boards should be accountable, but to whom are they to be accountable?

At the outset, ownership appears to be a simple idea. It is comparable to the notion of stockholders but is a narrower concept than *stakeholders,* a term that includes all parties who have an interest in the organization. Staff members and suppliers certainly have a stake in the organization, but neither of these groups is the ownership. Before jobs are created that require a staff and suppliers, a reason for operating must exist. That is, some preeminent process must intend some outcome for somebody. Despite the initiator of such a process (legislators, founders, incorporators, or appointing authorities), the burden of continuing that process eventually rests with a governing board. If the governing body is given authority to choose which beneficiaries will be served and with what benefits, it will make that choice on someone's behalf.

The board-ownership relationship is the essential, defining relationship of an organization. Board members stand in for the ownership, operating on its behalf. The board can be seen as a microcosm of the ownership, a workable subpart of an awkwardly large group. The board's primary relationship is to the ownership, not to the

staff. The board owes its authority to the ownership, not to the staff. Hence, the nature and identity of that ownership are critical to the development of board leadership.

Let me narrow this topic. One could correctly say that a board is accountable to the law, or to community standards, or even to Western civilization. Such accountabilities exist but are not what I will deal with here. Certainly, these accountabilities are true even in a business corporation, yet we all have a more focused meaning for *accountability* when we speak of stockholders. If I open a retail store with my own money, the store would be accountable to the law and so forth, but I'd accept absolutely no dilution of the fact that in terms of ownership, the store is accountable to me. I own it.

My employees, suppliers, neighbors, and creditors have a legitimate stake in my store. They are critical stakeholders, and their interests merit respect. But not one of these obligations changes the fact that the store belongs to me. I would not only tolerate but also desire that employees have a sense of emotional ownership in the business. I'd even try to manage so that they could control their own jobs as much as possible and share in the store's profitability, perhaps through profit-sharing. None of these considerations, however, changes the fact that the store belongs to me.

> The board can be seen as a microcosm of the ownership, a workable subpart of an awkwardly large group.

So when the Policy Governance model addresses the issue of ownership, it is defining this narrowly focused view of ownership. Nothing in the concept denies the importance of other interests. It simply recognizes that this particular meaning of ownership is imbued with a special significance that other meanings do not have.

Owners Are Not Always Obvious

In some instances, who the owners are is clear. Most people would agree, I think, that the source of legitimacy for a school board's decisions is the population of its district, even though the school board as an institution is a creature of state or provincial legislation. The source of legitimacy for a city council is the citizenry of the municipality, despite the fact that the city is incorporated by virtue of higher governmental action. The source of authority for a membership organization is the membership. The source for many nonprofits is often an amorphous general public.

It is important to recognize that even though owners are equivalent to stockholders, they are often not legal owners. Members in an association and citizens in a city, just like stockholders, are legal owners. But for the many nonprofits that are quasi-public in their intent, their general public ownerships are not legally linked as owners. Because the ownership concept does not have to be legal in nature to have its effect, I often use the term *moral ownership* to describe those who own the organization, for in many cases their ownership exists only in a moral sense, not in a legal one.

In addition, corporate "memberships" are common under not-for-profit statutes. This membership has real meaning in membership associations. In quasi-public organizations (for example, social service agencies and hospitals), the membership is more a legal ritual than a truly meaningful group. Its utility may lie more in being a fundraising base or a public relations gimmick, but in such cases it bears little relationship to the broad-based ownership I've defined here. Consequently, it would be inaccurate to think of a legally required membership as the ownership without careful scrutiny.

The Stakeholder Confusion

Let's return to a frequent source of confusion: the concept of stakeholder. If we go back to the retail store example above, the reason an owner is not the same as a stakeholder becomes apparent. As demonstrated, *stakeholder* is a more inclusive concept than *owner*. All owners are stakeholders, but not all stakeholders

> **← FAQ**
>
> Is *owner* just another name for *stakeholder*?

are owners. Figuring out who the stakeholders are is fairly easy—they include everyone who has a stake in the organization. To begin to disentangle the concepts, let's look more closely at stakeholders.

The term *stakeholder* has gained great currency among nonprofits over the past few years, probably because it has played a role in corporate boards' acquiring a wider sensitivity. In the corporate world, the concept stretched minds that occasionally placed stockholder interests above environmental protection and even basic ethical conduct. For nonprofit boards, however, the stockholder-equivalent never fully developed

> All owners are stakeholders, but not all stakeholders are owners.

to begin with, so there has been little myopia about owners to mend. Consequently, nonprofits' push to recognize an array of interested parties—stakeholders—in effect constitutes embellishment upon a hollow core.

Stakeholders are indeed an important assemblage. A typical stakeholder list for nonprofit and public organizations includes consumers (clients, patients, students,

customers), corporate members (under some nonprofit statutes), the general public, funders, employees, consultants, suppliers, regulators, volunteers, user organizations (to public schools, for example, colleges and employers are user organizations), trainees, neighbors, researchers, professional societies, trade associations, and board members themselves.

To conceive of such a disparate grouping as stakeholders is a useful idea, even beyond its utility in expanding the consciousness of business leaders, so I've no argument with the concept of stakeholders. *But it is not the same concept as owners.* The board's primary accountability is to the owners. Owners form the vital legitimacy base, the fundamental reference group for a governing board. Stakeholders, by contrast, are the wider group to whom the board owes obligations of all possible descriptions.

FAQ ➡
How does traditional representational governance fit with Policy Governance?

All of which is to say that a governing board's first obligation is not to consumers, nor to the staff. The foremost debt of fealty is to the ownership. I know this statement sounds like heresy, especially in view of recent history, in which confounding the various roles has become politically correct. Colleges and universities in some jurisdictions have been forced into a cogovernance situation with a senate or other designated faculty group having as much power as the board of governors. Staff members of various organizations are given board membership so that there is "staff representation." Clients, patients, or students are given board seats in order to "represent" consumers. By mistaking stakeholders for owners, a whole host of consumers, advocacy groups, funders, staffs, unions, and other groupings are included as though they are equal partners in owning the organization. These actions reduce the effectiveness of governance by splitting the board's attention away from the real owners.

Staffs have been known to choose what the public (or membership or stockholders) wants more than the public does.

This distraction is particularly insidious in that other admittedly important groups are more visible and more present to most boards than is the ownership. When the elusive ownership role is not well defined and made an explicit object of board attention, it is natural for these other groups to acquire de facto ownership status. Of course, they move into the vacuum with their own agendas. Not uncommonly, this phenomenon of counterfeit owners leads a public service organization (for example, a mental health center, school system, counseling service, or branch of government) to operate as much for the benefit of its staff as for the public. Staffs have been known to choose what the public (or membership or stockholders) wants more than the public does.

So it is that citizens of a city, *not* city employees, own municipal government—and the city council had better speak for the citizen-owners. Citizens, *not* educators, own the public school system—and the school board is duty bound to represent them. Members of an association, *not* the staff, own the association—and the board had better govern putting members' interests first. Are staff members still important? Of course they are. Are they the owners? By no means—at least not in their role as the staff. Are the staff part of an amorphous group called stakeholders? Yes, they are, right along with

> Members of an association, *not* the staff, own the association.

the owners. And that is why we need a special category for owners, one not adulterated with other groups, no matter how important these other groups may be.

Keep in mind that defining an ownership in these terms does not suggest that a board should ignore nonowner stakeholders. The board should listen to anyone who can increase its wisdom. The difference is that the board *works for* the ownership, just as the CEO works for the board. This obligation to the ownership is not simply the board's primary obligation in the sense of its greatest obligation. It is the "point of departure" obligation, the one that frames all other obligations and within which obligations to other stakeholders are conceived and weighed.

The Consumer Confusion

Just as prevalent as is the flaw of allowing the staff to become the de facto owners by default, the most difficult confusion for boards lies in understanding why consumers should not be treated as the owners. After all, the business world has been inundated with the need to be "customer focused." This entreaty has been taken to heart by non-profit and public organizations—and it should be. So why shouldn't the board's first obligation be to consumers?

Owners and consumers are both important groups of people. They have different relationships to the organization and are entitled to their respective prerogatives. But problems arise when the board does not recognize the difference, a particularly tricky task when consumers and owners are the same people. I'll explore this situation with you, but let us first examine how acting as a consumer is different from acting as an owner.

Consumers have the prerogative to demand good and courteous treatment. They have the right to be dealt with in a humane and civil way. They have the right to complain to whomever they wish, with no obligation to respect chains of command or the needs of other consumers. If you purchase a product at a retail outlet, you will exercise all these prerogatives if you feel the need. You'll demand your money back or replace-

ment of the purchase if you receive shoddy goods. You'll write a nasty letter to the salesperson, president, or board chairperson if you want to. You don't have to worry about the needs of other consumers or the organization's need to be fiscally sound.

Owners have the prerogative to have a say in what the organization exists for, what business it is in, and how much return it should earn (for nonprofits and government, return translates into how much good is done per dollar—an ends issue). Owners must respect the chain of command, and they can only be heard along with other owners, for they don't have the individual rights that consumers have. After all, an individual owner is really only a joint owner with others.

To illustrate, I can go into a sportswear store and order a pizza. But as a customer I have no right whatsoever to tell the company that it should produce pizzas. I do have the right to demand good value and courteous treatment if I want to buy running shoes. No one would claim that consumers have the right to decide what will be produced. Only owners have that prerogative.

A board of directors is established to gather the desires of multiple owners and to translate these competing wishes into strategic direction.

Now, let us complicate the matter a bit. Let's say I buy stock in the corporation that operates the sportswear store. Now I am an owner as well as a customer. Everyone understands that a majority of owners can, in fact, decree that their stores will henceforth be in the pizza market as well as in sportswear. But no one would expect that one stockholder (unless my stock is the majority!) could make such a command. Because even if I owned all the stock, I would never give an instruction to a single store employee.

FAQ ➡
What if the customers and owners are the same people?

A board of directors is established to gather the desires of multiple owners and to translate these competing wishes (for short-term versus long-term gain, for example, or for emerging markets versus historically proven ones) into strategic direction. The board of directors is not a body established to represent consumers, nor does it need to be. (Which consumers would they be representing anyway? Yesterday's, today's, tomorrow's, or all potential consumers?) The board's job is to gather and process input from the owners.

Now, consider situations in which consumers and owners are the same people. A city council is a board that represents *city residents as owners*. It governs an organization that produces benefits for *city residents as consumers*. Its owners and consumers

are not totally identical (visitors to a city will be consumers, but not owners), but are similar enough for me to make my point. If as a citizen I have views on how much taxation is worth how much protection from burglars, I am thinking as an owner. If as a citizen, I am upset at having been haughtily treated by a city employee or am happy that a police officer was courteous and helpful, I am thinking as a consumer.

But consider your city council or school board meetings wherein citizens complain or otherwise attempt to influence the council. Much if not most of what these officials hear is consumer input! Yet these boards hear little that could truly be called owner input. And when they do, it is not a representative sampling of all owners. Remember that as one owner I have no right to affect the sportswear store. As two stockholders, you and I together have no right to do so. Only a majority of owners has that right. So *the city councils and school boards face a quandary: First, they hear only a small amount of owner input out of the many hours of citizen input they endure. Second, the owner input they do hear is from a self-selected, extremely small proportion of the ownership.* (Indeed, most city councils and school boards can actually name the handful of persons they repeatedly hear from!)

This matter is not as clear-cut for quasi-public, nonprofit boards, though the same phenomenon exists for them. Almost no boards, with the possible exception of association boards, get the kind of ownership input that would enable the board to be a true organ of ownership. Even then, association boards tend to hear the consumer viewpoints of their members more than they receive ownership input.

Before sounding even more heretical than I intend, let me insert that the CEO's and operating organization's first priority is to the consumers, *once they have been defined.* Once it is clear, for example, what a social service organization is to accomplish and for which populations, the CEO must see to it that the identified consumers get what they should from the organization. For a public school board, once it is clear what the public investment is intended to produce (for example, literacy or democratic par-

> ← **FAQ**
>
> How does the board ensure that the organization has a customer focus?

ticipation skills) and with which group of children (gifted, mainstream, developmentally disabled, or physically challenged), the CEO must ensure that these consumers benefit as they should from the system.

With what legitimacy or on whose behalf did the respective boards make these ends judgments? If they had the right to define what benefits and which consumers, *they must have had that right before the consumers were defined.* The authority of the board must derive from another, preexisting source. And the source of one's authority has first claim on how the authority is used. In other words, the board derives its

> **In nonprofit and public organizations, consumer focus is ordinarily more rhetoric than reality.**

moral legitimacy from a base larger than itself, yet not tied to any particular consumer group.

Despite its initial sound, this concept is far from a repudiation of the consumer focus that has become a buzzword in organization development. Traditional board operation, overburdened and distracted by an endless stream of means issues, has neither the time nor the discipline to delineate ends criteria. We cannot expect organizations to have a powerful consumer focus when consumers and the satisfaction of their needs have been poorly defined. Consequently, in nonprofit and public organizations, consumer focus is ordinarily more rhetoric than reality. Social service agencies or city governments trying to implement a consumer focus is like someone with no concept of the multiplication table trying to use calculus. The staff can and should be more pointedly oriented to consumer satisfaction, but this orientation requires the board to determine who the consumers are to be and what is to be changed in their lives. The truth is that the staff can be more aggressively consumer focused if the board is obsessively owner focused.

> **The truth is that the staff can be more aggressively consumer focused if the board is obsessively owner focused.**

Ironically, using this approach, a school board will spend far more time talking about student benefits than does the traditional school board. But its interest in what to accomplish for kids is informed by and, in the end, governed by those who own the system. The board is an organ of ownership. It is not an organ of staff, nor is it even an organ of consumers. But out of its obligation to owners, it is interested in both staff and consumers and realizes that defining and achieving something for appropriately chosen consumers is the only justification for continuing the organization.

> **The board is an organ of ownership. It is not an organ of staff, nor is it even an organ of consumers.**

In other words, causing the board to relate primarily to the ownership rather than to consumers can lead to *more* pointed delineation of consumers than is the case with traditional board operation. After all, the board itself does not serve consumers; its staff does. The board, in a manner of speaking, serves the owners; it serves them by defining consumers, consumer benefits, and economical production on their behalf.

In summary, the ownership concept is critical in establishing the nature of governance, particularly in tracing board authority and accountability to their source. Consequently, the concept has far more than academic significance, but rather, in a more practical sense, fuels the planning of board job and agenda.

> **The ownership concept is critical in establishing the nature of governance, particularly in tracing board authority and accountability to their source.**

Defining Ownerships

Defining some ownerships is easy . . .

Halton Region Board of Education—*the residents of Halton Region.*

Association of Community College Trustees—*community college trustees who are members of ACCT.*

Metropolitan Indianapolis Board of Realtors—*realtors who are MIBOR members.*

City Government of Plano—*citizens of Plano.*

. . . and defining some ownerships is more difficult

Public radio station KQED—*donors, general public in the listening area, talk radio show advocates?*

American Red Cross—*official members (volunteers) of the Red Cross or all Americans?*

National Endowment for the Arts—*the general public, the government, artists, writers?*

Girl Scouts of the USA—*girls, parents, society at large?*

Reinventing Your Board

A Step-by-Step Guide

to Implementing

Policy Governance

REVISED EDITION

John Carver
Miriam Carver

Next Chapter

At this point in your work, all policy categories have been completed except the most exciting and compelling one of all, Ends. In Chapter Seven, we help you begin this important process. While Executive Limitations, Governance Process, and Board-Management Delegation categories can be completed relatively quickly, Ends require more study and creativity. They are the central challenge to board decision making.

Ends Policies
The Real Bottom Line

In this chapter, we are going to guide you through the process of developing the Ends policies of your organization. Although this challenge will be the heart of the board's work forever, it is not necessary to finish your Ends work prior to putting the other three categories of policies into effect.

Policies in the other three categories should be relatively complete in order to codify the board's job and the board's relationship with management, as well as to provide the safety to let go afforded by Executive Limitations. But with those policies in place, the board and CEO can begin operating in a Policy Governance manner. We refer you to Chapter Nine for tips on getting that process started.

The work of this chapter, however, is to describe the board's never-ending task of determining not what the organization *does* but what it is *for*. Our attention turns, then, to the creation of Ends. In Policy Governance, the term *Ends* refers to the effects an organization seeks to have on the world outside itself. Its work will cause something to be different for someone at some cost. The concept embraces

- The impact, difference, change, benefit, or outcome to be obtained in the lives of consumers or consumer-like populations. Let's call this *results*.

- The identity, description, or characteristics of the consumers or populations to receive the results. Let's call these *recipients*.

- The monetary expense, relative worth, or relative priority of a result or set of results, or the comparative priority of certain recipients rather than others getting the results. Let's call this feature *cost*. Keep in mind that cost can mean *cost in other results forgone*, not just cost in monetary terms.

Ends policies, then, are policies that address a threefold concept: your organization's results, recipients, and cost of results. To qualify as an ends statement, a proposition must describe at least one of the three components. Taken as a whole, of course, your Ends policies will describe all three. We intentionally risk overkill in defining the ends concept, for we have found that despite its simplicity, it is persistently misinterpreted. We strongly urge compulsive attention to the ends definition.

You will sometimes hear ends mistakenly equated with results only. Be careful not to fall into this trap, as the concept is broader than a simple designation of outcome. (If results were the only meaning of ends, there would have been no need to use a word other than *results* in the first place.) You will find yourself tempted to define ends as anything that is important, required by law, or the end point of a process. None of these are correct definitions in Policy Governance. You will find yourself tempted to define ends as your programs, services, or curricula. These are not ends; they are packages of means. Financial soundness and a good budget are means also. You will find yourself calling all of these ends occasionally. Watch out for this! We suggest that board members develop a habit of friendly but rigorous policing of each other in order that the concept not deteriorate with misuse.

Ends issues are located on the circle diagram in the top right-hand quadrant, as shown in Figure 7.1.

Figure 7.1. The Ends Quadrant.
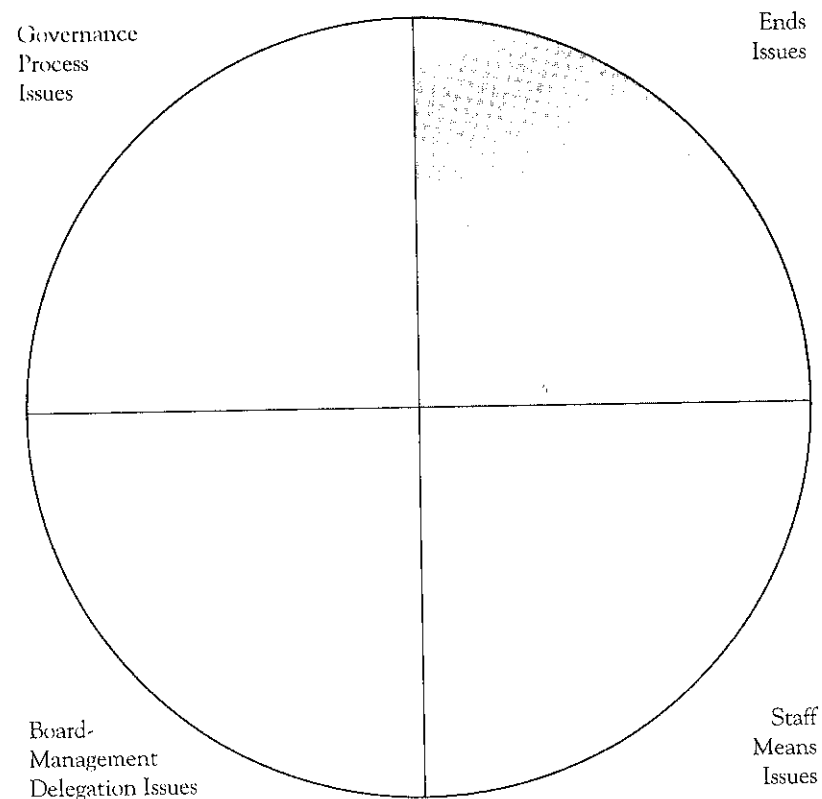
Note: On the circle diagram introduced in Chapter Two, the issues dealt with in this chapter are in the upper right-hand quadrant.

As with all other policy types, Ends are developed beginning from the broadest, most inclusive and general level first, then toward progressively more defined levels. Also in common with the other policy types, Ends are developed to the point that the board can accept any reasonable interpretation of a delegatee. In this case, the delegatee is the CEO.

Despite these features in common with the other policy types, this chapter will be very different from the three preceding chapters. For policy development within Executive Limitations, Governance Process, and Board-Management Delegation (all means

policies), we were able to present you with some generic samples. Those policies were model-consistent examples of what many boards have used. While we expect that you will have changed them somewhat, the format and content of means policies have general applicability across organizations of all types.

To recap, Governance Process and Board-Management Delegation policies describe both the Policy Governance model and its practical application. If you accept the model, your policies in these categories will merely be slightly tailored restatements of the model itself. Executive Limitations policies are really an expression of the board's values of prudence and ethics, since these values are the only reasons to constrain your CEO's choice of means. Because people in a culture have somewhat similar ideas about ethics and prudence, these policies tend to be similar across organizations of very different types. (While policies that tell the CEO how to manage would not be generically applicable, policies that tell the CEO how *not* to manage are.)

Ends policies, in sharp distinction, are not generic at all. In fact, the uniqueness of any organization lies in its Ends. The meaningful difference between a city government and a hospital, or a mental health center and a trade association, lies not in different concepts of what is prudent and ethical nor in the principles of governance. The meaningful difference lies in the results they seek to produce for consumers, the particular consumers to whom they are targeted, and the worth or priority they assign to those results and recipients.

A further difference between the process of developing means policies (for board and staff) and that of developing Ends policies is the time involved in the policy work. Means policies, as you have seen, can be developed in a relatively short time. They are internally focused, and most of the information required for their formulation is available inside the board or staff organization. Ends policies, on the other hand, deal directly with issues of the world outside the board and the operating organization. Your board, in making its Ends policies, will be making hard choices about who

will and who will not benefit from your organization, and in what ways. Such decisions are difficult, perhaps painful, and may be politically charged. They always need to be made with proper diligence from a very informed position, for a board makes such determinations on behalf not of itself, or its staff, or even today's consumers, but on behalf of the ownership in general.

Hence, we are not able to present you with samples of Ends policies that you can work from, as we did in the other policy quadrants. What this chapter will do is provide a format, or a sequence, for your board to use when it involves itself in the long and difficult task of Ends policy development.

When your board sets out on its Ends work, approach the task with the following perspectives:

1.   *Don't assume that your existing mission statement is an Ends policy.* We often find that our clients have inspiring and rhetorically attractive mission statements, and we do not at all mean to minimize either the effort that went into preparing such documents or their possible public relations value. It is rare, however, that they are written in ends terminology, that is, that they define who is to benefit from the organization, in what way, or at what cost. They therefore do not qualify as Ends policies.

2.   *Expect it to be difficult.* This may be counterintuitive. Our clients often start the policy development process expecting that means policies will be difficult to write and that Ends policies will be easy. After all, they reason, it's pretty obvious why the organization exists. After not very long, they realize it is not at all obvious what benefits should accrue, much less to which consumers at what cost. It is clear that boards have seldom considered such issues and that, as a result, they need to start virtually from scratch to define organizational purpose.

3.   *Be rigorous about Ends attributes.* This is difficult at first, since you will find that it feels more natural to describe activities and intentions than to prescribe results, recipients, and cost. In time, you

will get used to speaking in ends terminology, but for this to happen, you must learn to recognize that effort and action words almost always describe means, not ends. If you prescribe means to your staff, you will surely get them, but you will still be in the dark as to whether the right results were produced for the right people at the right cost.

4.   *Never assume that your existing strategic plan is or contains an Ends policy.* You may have spent some time developing a strategic plan. These plans usually contain a number of goals, objectives, or strategies for future years. Our experience is that they almost always are means documents. Plans, after all, describe how to get from here to there. Ends policies describe "there" with a consumer benefit focus. It only illustrates the aimless means focus of many nonprofit and governmental organizations that it is common to have extensive strategic planning even though ends are largely undefined! In Policy Governance, the CEO has the same prerogatives with strategic planning as with any other staff means issue: to make sure that all planning is within constraints established by the board.

5.   *Develop Ends policies with a long-term perspective.* Your board should aim at defining what the organization is to accomplish, for whom, and at what cost over the next several years, not by next month. Using a horizon that is appropriately distant will force the board to have a future orientation and to inform itself about future developments in the profile of needs and populations. It also recognizes that the staff needs time to plan and implement change in pursuit of the board's Ends.

6.   *Make sure Ends are doable.* Ends policies, even at the most global level, describe the achievements for which the CEO will be held accountable. Accordingly, the board must be careful to make its requirements realistically ambitious. You should expect the maximum possible, not the maximum conceivable. So avoid rhetorical flourish. "A world that works for everyone," "A community free of alcoholism," or "Every child a wanted child" are Ends statements, but probably not yours! These are ideal states to which your board may have a philosophical commitment and, for that reason, bear

stating. In other words, your board may want to make a statement of philosophy or be explicit about its motivation or the beliefs that bring it together in the first place. This is understandable, but such statements are not Ends. They belong in the Governance Process quadrant of board policy, declaring, in effect, where the board is coming from or the board's mentality.

7.   *Ignore current organizational divisions or departments.* Your board should not make Ends policy on a department-by-department basis. Remember that the organizational structure, or division of labor, is a staff means issue within the purview of the CEO. The CEO has the right, unless specifically constrained by Executive Limitations policies, to change internal organizational structure. Do not allow staff structure to drive board thinking about the impact your organization should have.

8.   *Never allow the problem of measurement to come up as you decide Ends.* We are aware of how odd this sounds. We, too, have heard the rules about always having measurable objectives. We are not opposed to measurement! We are simply asserting that if the board allows measurement questions to contaminate its deliberations about what is to be accomplished, for whom, and at what cost, it will prescribe what is measurable rather than what is meaningful. We urge you to demand meaningful performance from your organization. The CEO will be required to convince the board that a reasonable interpretation of the board's Ends demands was delivered. So let measurement be the CEO's problem, but be realistically prepared to accept crude measures. It would be wonderful if Ends could be precisely measured, but at this stage of history they will likely be measured only crudely. Here's a useful adage to remember: "A crude measure of the right thing beats a precise measure of the wrong thing." For too long, our nonprofit and public organizations have been precisely measuring the wrong things!

9.   *Expect to find that there is information you need and don't have.* Policy Governance boards spend a large amount of time getting educated. To demand doable results, to specify recipients, and to set acceptable costs raise many difficult questions. Just what is doable?

Who are the potential consumers for whom we could make a difference, and how do we choose among them? What choices do our owners want us to make, and how will we deal with the inevitability that the owners themselves don't agree? How much should the results we demand cost? How should the results we seek change over the next few years? How will changes in public policy affect our choices? You can undoubtedly think of many more examples of information required for Ends decisions.

Now with those observations in mind, let us proceed through a set of exercises aimed at assisting your board to find the broadest, most inclusive, largest-mixing-bowl Ends policy for your organization. To do these exercises, it would help to appoint a member of the board to use a flip chart so that the various attempts that your board makes can be kept together. We strongly urge that all board members be involved in this exercise.

Let's Take It from the Top: Level One

Your board will start its Ends policy development by deciding on the largest appropriate Ends statement.

We have found that focusing on the results aspect of ends is a good start-up tactic. That is, don't try to cover results, recipients, and cost all in this beginning exercise. Not having to focus on recipients and cost makes the job easier at this juncture. You might find that specification of recipients will occasionally emerge naturally. If it does so, fine, but our initial focus will be results.

Let's give this approach a rational grounding as well as a practical one. Results precede the other two components. Organizations exist to cause something to be different. What is the difference? What is your organization for, stated in its simplest and most focused form? In other words, what should result from organizational activity? What does it produce? For this reason we'll look for getting a handle on results first.

Only then will we concern ourselves with who gets the results. Obviously, your organization can't produce its results for the whole world. Some populations or individuals will get the benefits, and some will not. Who should benefit? How will the benefits be apportioned?

Finally, we concern ourselves with what these results with these people are worth. What are they worth in monetary terms? What are they worth in opportunity cost, that is, other things given up in order to get them? Or what is their importance relative to each other rather than relative to money or opportunities foregone? In other words, what are their relative priorities?

This succession of questions (first what results, next which people, finally what cost) can be asked at all levels of abstraction. That is, they can be asked at the Level One stage that we are about to start. But they recur throughout the Ends domain. For example, think of a school system in which the board addresses what skills and insights are to be attained by young persons of a particular geographic area for a tax burden of a certain amount. In that same system, a classroom teacher is faced with deciding what skill level should be attained by little Consuela by this afternoon and whether that is worth letting a few other children wait awhile.

So let's begin our work by looking for the results component at the highest level of ends. We suggest starting the Ends development process by naming "candidates" for the largest Ends policy, which we call E #1. To begin, ponder questions like these: If this organization were to disappear from the face of the earth tomorrow, why would we put it back? What are we buying with (or what justifies) the resources consumed by this organization every year? What does our ownership demand from this organization? Remember you are concerning yourselves with what the organization is for, not what it does.