8

Monitoring Organizational Performance

Getting the Right Information About the Right Things

Our purpose in this book is to guide you through the details of policymaking in the four categories that together establish board control over the entire organization. But one aspect of subsequent implementation stands out as difficult for many boards—that of performance *monitoring* (we use the word as a synonym for evaluation). One of the policies in the Board-Management Delegation category deals with the monitoring process. That policy, "Monitoring Executive Performance," sets out the board's manner of monitoring performance on a frequent, rigorous, and fair basis.

In this chapter, we look more closely at the nature of monitoring along with a method and format that will enable both board and CEO to complete their share of the monitoring task in a complete and rigorous manner. We guide you through the steps of requiring, receiving, and appropriately responding to monitoring reports. We also demonstrate that delegating authority to make any reasonable interpretation of board policies solves many of the apparent problems thought to exist in the monitoring of performance.

The Nature of Monitoring in Policy Governance

At the outset, we need to make clear how the word *monitor* in Policy Governance is used. One common definition of the word is to "follow along" or "keep up with." For example, you might monitor the room temperature, monitor the weather, or monitor the enemy's troop movements. Those are perfectly acceptable applications of the word. Boards typically use the word in just that way when they speak of monitoring financial matters or personnel changes.

But monitoring in the "follow along" sense does not count as monitoring in Policy Governance. The term in Policy Governance means to compare actual conditions or achievements with authoritatively stated expectations about those conditions or achievements. For example, if the board has stated no performance criteria, no monitoring is possible. The board must perform its own job before it can judge performance of the operational organization. Consequently, even though burdened with massive reports, many if not most current governing boards are in Policy Governance terms not monitoring performance at all. Practicing governance under the less demanding definition enables the board to be passive and exposes the CEO to capricious judgment.

The Two Components of Monitoring

The purpose of monitoring is to allow the board to check to see whether everything is in order, that is, whether the operational organization is performing satisfactorily. Satisfactory performance is defined as the accomplishment of a reasonable interpretation, *any* reasonable interpretation, of the board's Ends and Executive Limitations policies.

The history of boards and their monitoring has been so steeped in poor governance practice, however, that we regularly find boards having trouble with this part of their obligation, even with the simplification that Policy Governance affords. This chapter discusses the practicalities of monitoring, which will make it easier to stick with the policy you've already written. We begin by restating the role played by monitoring in the larger scheme of accountability.

Accountable delegation requires that the delegating party (1) sets expectations, (2) assigns the expectations as well as the authority to meet them to someone, and (3) checks to see if the expectations are met.

The trouble boards have traditionally had with monitoring is commonly caused by not completing the first step first (setting expectations). A Policy Governance board, however, will have stated everything it expects of the CEO—and, therefore, everything the board has any rightful prerogative to monitor—in Ends and Executive Limitations policies. The board's monitoring stance with respect to the CEO, then, is simply to inspect whether the CEO has given the board what it wants (Ends) and has avoided what the board doesn't want (Executive Limitations). Proper monitoring is this and only this.

Policy Governance provides boards a method to hand over a great deal of authority to their CEOs. It makes sense that the person responsible to the board for ensuring acceptable organizational performance would be given plentiful authority. What would be the sense of relying on someone to make your business work, yet allowing little authority to make decisions? Yet when extensive authority is given to a manager or CEO, it is a requirement of responsible governance that the use of that authority be carefully monitored.

Let's look more closely at the nature of the authority given to the CEO. The CEO has been told to achieve any reasonable interpretation of the board's Ends policies while avoiding any reasonable interpretation of the board's Executive Limitations policies. The "any reasonable interpretation" authority should be carefully noted here, for it places two requirements on the CEO. First, the CEO must reasonably interpret the policies of the board. Second, the CEO must accomplish the interpretation.

Since the board has agreed to accept any interpretation that can be shown to be reasonable, it only follows that the board should be informed as part of the monitoring process what exactly the interpretation was. Indeed, the board should also expect to be shown why the CEO's interpretation should be considered reasonable. Only then can performance data be considered, because what the sequence amounts to is that monitoring data are measures of the CEO's accomplishment of that interpretation.

We are making a radical point here. Organizational success must be demonstrated by data. But these data measure the CEO's interpretation of board policies, not the policies themselves. Hence we can argue that all board policies no matter how broadly expressed are ultimately measurable, because they will all be interpreted.

From Chapter Six, you will remember that the board can require monitoring reports to be prepared under the authority of the CEO (an internal report), an outside party not under CEO authority chosen by the board (an external report), or by one or more board-authorized members of the board itself (a direct board inspection). But no matter who collects the data for monitoring reports, the interpretation of the board's policy must always be that of the CEO. Accordingly, the CEO must provide to outside monitors or the board's monitoring group a disclosure of the interpretation currently being used.

Consequently, the board has two judgments to make about monitoring reports: first, it must judge the reasonableness of the CEO's interpretation, and then, if the interpretation is found to be reasonable, the board must assess the data presented in order to judge if the interpretation was accomplished.

Exhibit 8.1 is a format that we have found useful for monitoring reports. We have chosen to show an internal report, but the format works also for external and direct inspection reports. The section in which the CEO describes the interpretations in use is virtually always the longest of the sections. That is because it includes the CEO's justification for the asserted reasonableness, measurably operationalized.

CEO Interpretations

The CEO's interpretations of board policies transform those policies into operational definitions of performance standards. These interpretations will be the starting point for internal policies and requirements issued under CEO authority. It is common for CEOs

Exhibit 8.1. Monitoring Report Format.

INTERNAL MONITORING REPORT

Policy # ______________ Date __________

I certify that the following information is true.

Signed ______________________, CEO

Policy Language:

____

CEO's interpretation and its justification:

____

____

____

____

Data directly addressing the CEO's interpretation:

____

____

Note: Repeat this format for each section of the policy being monitored.

to make some or all of the following errors when they are learning the monitoring method we have described.

Unuseful and Useful CEO Interpretations

Consider this Executive Limitations wording: "*The CEO shall not allow employees to be treated in an unfair manner.*"

An unuseful interpretation: The CEO simply repeats the policy: "*It is not acceptable for employees to be treated in a way that is unfair.*"

An unuseful interpretation: The CEO simply replaces the board's words with a dictionary definition: "*People who work for us may not encounter treatment that is unjust.*"

An unuseful interpretation: The CEO simply makes a statement of good intent. *"We will always treat employees in a way that is fair and just."*

A useful interpretation: The CEO further defines the board's words in such a way as to yield an operational definition, interpreting the words *"shall not allow employees to be treated in an unfair manner"* as follows:

> This policy requires fairness, which is defined as the consistent application of defensible rules and requirements, as well as a just system, in which complaints are seriously considered. This interpretation is consistent with the definitions used by the provincial Association of Human Resource Management as well as our legal counsel.
>
> a. Rules that impact employees must be largely consistent in content with such rules in settings of similar size and type, as judged by our Trade Association.
>
> b. Rules and requirements include those relating to behavior, appearance and dress, promotions, discipline, attendance, and harassment and other forms of violence.
>
> c. Rules and requirements are enforced uniformly. 85 percent of personnel surveyed in a stratified random sample must report that enforcement is consistent. [Note: 85 percent is the level chosen because HR research suggests that 15 percent of staff will complain of unfairness regardless of the facts.]
>
> d. 85 percent of staff surveyed report that there are 1) no negative consequences to voicing concerns, 2) clear channels for the expression of dissent or grievance, 3) speedy resolutions to complaints, and 4) clear explanations for management decisions.

Consider this Ends wording: *"Students will have literacy skills at grade level."*

An unuseful interpretation: The CEO simply repeats the policy: *"Students must have grade-level literacy skills."*

An unuseful interpretation: The CEO simply replaces the board's words with a dictionary definition: *"Students will be able to read and write at a level that is expected at their grade."*

An unuseful interpretation: The CEO simply makes a statement of good intent: *"We will make sure that all our students perform on this measure at grade level."*

A useful interpretation: The CEO further defines the board's words, producing an operational definition by interpreting the words *"literacy skills at grade level"* in these terms:

> Based on research from the University of X Faculty of Education and studies recently reported in the *XYZ Journal of Educational Accomplishment* (references provided), accomplishments of this policy requirement will be as follows:
>
> a. 100 percent of students who demonstrate intellectual abilities in the normal range will be expected to read and write English at or above a skill level characterized by level [x] on the [abc] literacy test.
>
> b. 100 percent of students with intellectual abilities in the superior range will be expected to read and write English at or above a skill level described as [y] on the [abc] literacy test.
>
> c. Students who demonstrate intellectual abilities below the normal range will be expected to be able to read and write to the highest extent of their potential, as measured by psychometric testing.
>
> d. Exception: Students for whom English is a second language and who have been in our system for less than 2 years will be expected to demonstrate English reading and writing skills at a level not more than [f] levels below that of their native-born classmates.

The Sequencing of Interpretations

Each of the levels of policy stated by the board must be monitored. For example, if the board requires monitoring of an Executive Limitations policy and has defined its expectations to Level Four, the CEO must provide interpretations and data for Level Two (the starting level for topic-specific policies that follow the global constraint of Level One), Level Three, and Level Four. We strongly suggest that the interpretations be made by the CEO starting at the narrowest level of board policy. Note that while the board spells out its policies from the broadest to increasingly narrow levels, the CEO should interpret the policies from their narrowest to their increasingly broad levels. When the CEO has made a thorough interpretation of the elements of the board's Level Four policy wording, interpreting Level Three policy wording consists of interpreting those aspects of the Level Three policy that were not interpreted in the Level Four interpretations. Likewise, interpreting Level Two policy wording consists in interpreting those aspects of Level Two that were not addressed by interpretations of Levels Three or Four. There will be times when it may be possible for the CEO to make the case that the interpretation of Levels Three, Four and so on makes further interpretation of Level Two redundant.

Interpreting the board's policies starting at the narrowest level and proceeding to broader levels results in an interesting finding at the Executive Limitations Level One. This policy forbids the occurrence of any situation that is unlawful, imprudent, or unethical. It turns out that the rest of the Executive Limitations policies have further defined the meaning of "imprudent" and "unethical" and may or may not have further expanded on these two prohibitions so exhaustively as to leave no further interpretation necessary at Level One. What has possibly gone insufficiently monitored, however, may be the prohibition against situations that are unlawful. For many of our clients, therefore, the primary monitoring of Executive Limitations Level One consists in interpretations and data relevant to lawfulness.

The Timing of Interpretations

Unbelievably, we have encountered CEOs who view an upcoming requirement to produce a monitoring report as a signal to start interpreting the policy to be monitored. This is far too late. The purpose of the exhaustive system of board policies in Policy Governance is to ensure that the organization is instructed about all aspects of required performance. The board has the right to expect that the entire organization, its staffing, finances, programs, organization chart, and all other decisions operate in accordance with a reasonable interpretation of the board's expectations. Accordingly, it is hard to understand how an organization can function without interpretations of policy being made all the time. The CEO must initiate the sequence of staff-level decision making by interpreting board policy as soon as it is enacted. We visualize the sequence shown in Figure 8.1, which shows that after the board has enunciated a policy, the CEO interprets it in readiness to make further decisions including further delegation of responsibilities to other staff. Note that the staff activities shown in Figure 8.1 may include planning for the future too, so that strategic planning and budgeting are activities that are driven by board expectations, but are not themselves expectations set by the board.

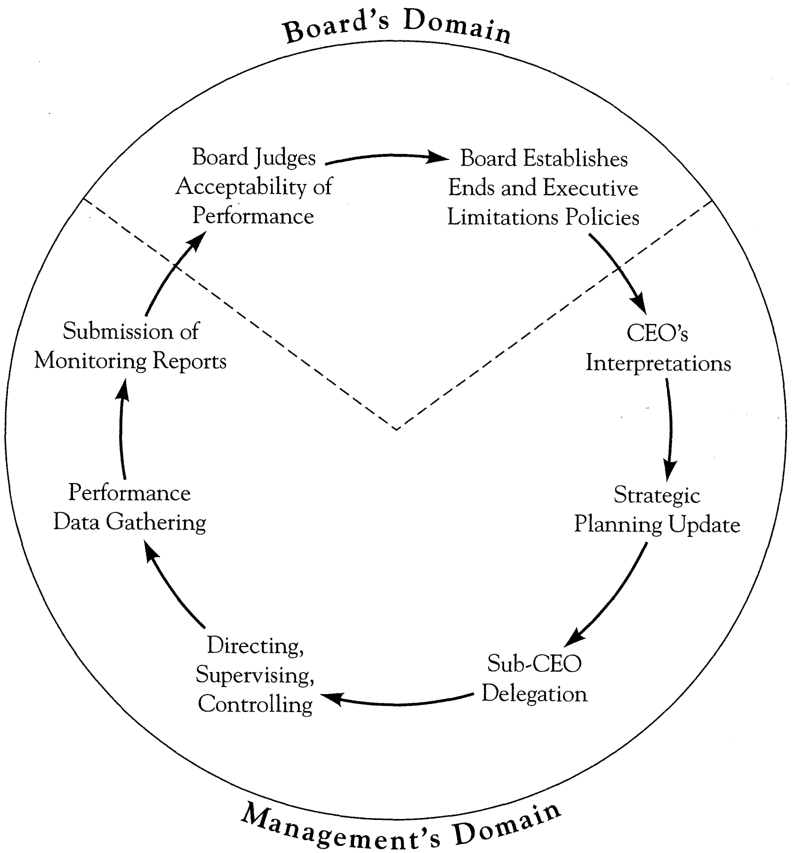
Board Members' Receipt of Reports

Since monitoring reports are sent to board members between meetings, they must be clear enough to allow every board member to arrive at a personal answer to two key monitoring questions:

First, *Can I tell whether the board policy has been reasonably interpreted?* This is not the same as asking, Do I agree with the CEO's interpretation? The CEO was given authority to make not any interpretation with which board members later agree but any interpretation that can be shown to be reasonable. If a board member feels that the interpretation, though reasonable, is not acceptable, the board member must agree that the CEO's interpretation is not a problem, though the board's policy may be. The board member should argue that the board reconsider its policy wording so that the requirements placed on the CEO going forward are changed.

Second, *Do the data submitted demonstrate that the CEO has accomplished the interpretation?* Note that descriptions, no matter how interesting, of how the organization is attempting to accomplish the interpretation are not performance data. Describing the reading and writing curriculum does not provide data that the students can read and write. Describing the level of attendance at the reading and writing classes equally is not a demonstration of accomplishment.

Figure 8.1. The Cycle from Policy to Monitoring.



Note: The cycle begins with board establishment of Ends and Executive Limitations policies and terminates with board receipt and judgment of both the reasonableness of the CEO's interpretation and the credibility of performance data.

Although reports should be received, read, and considered by board members between meetings, there should still be an item on the agenda in which the board notes that it has received, read, and evaluated the monitoring reports due since the last meeting. This is where the board formally expresses its opinion that the reports demonstrated (or did not demonstrate) the accomplishment of a reasonable interpretation of board policy. This is a significant demonstration of due care, and is a matter for the true governance

agenda of the board, though it may take very little time to attend to it. Because this action requires the exercise of board judgment, it does not fall into the class of actions that belong on a consent agenda as that term is described in Policy Governance.

What to Keep in Mind About Monitoring

As the board implements Policy Governance, it would be wise to think about and occasionally discuss the following points about the monitoring process:

1. *The policies are the criteria.* Boards sometimes forget that the policies are the whole set of criteria for measurement. Perhaps because boards are traditionally so remiss in clarifying expectations, new Policy Governance boards find it hard to remember that in making Ends and Executive Limitations policies, they have just established all the criteria for organizational performance they need. We have seen boards conscientiously struggle with and decide upon their policies, then go on to set up superfluous additional monitoring requirements, some of which bear no relationship to the policies. They proceed to receive reports on a number of indices and review them in the absence of any standards of acceptability known to them or, of course, to the CEO.

One such example was a board that required reports on employment equity, staff orientation, and a number of other staff-related matters even though it had no board-stated expectations in any of these areas, except that the law be observed. When asked how they would judge these reports after having received them, the board acknowledged that they would have to do so with unstated criteria. Meanwhile, the laboriously developed staff treatment policy (which, of course, did state expectations) was going unmonitored!

In another example, a board of a college carefully defined expected student achievement and then received so-called monitoring reports tracking the number of students enrolled in a certain selection of classes. Social service organizations occasionally make this error also, mistaking the numbers of people attending their programs and services for monitoring data about Ends.

In both examples, the board was receiving information that may have been interesting but was not monitoring any criteria in existence. There is nothing wrong with the board knowing about these data, but to think of them as monitoring cheats the integrity of governance.

2. *The monitoring of criteria is a passive process that is different from the setting of criteria.* We have encountered boards that, having failed to monitor the criteria they have set, find themselves examining information about which they have no criteria and thus establishing criteria on the fly. Monitoring in Policy Governance is simply the comparison of what *is* to the CEO's interpretation of what was required. (Notice that traditional budget approval or financial report approval are instances of on-the-fly criterion setting.) The only judgment applied to true monitoring data is simply to determine whether the data demonstrate the accomplishment of a reasonable interpretation of the requirement set out in policy.

3. *"Any reasonable interpretation" means just that.* New Policy Governance boards occasionally forget that they have allowed the CEO to use any reasonable interpretation of their words. Board members find themselves judging the monitoring data they receive against the standard of their own personal preference. Would I have made that decision? is a different question from Is that decision or outcome a reasonable interpretation of what we said? The first compares CEO performance to an unstated and individually determined criterion, exactly the shoot-from-the-hip comparison that the Policy Governance board has determined not to make! The latter compares CEO performance to a group expectation that was previously known.

A variant of this mistake in monitoring occurs when board members defer to the opinion of the board expert (either real or self-proclaimed) on the subject at hand. Needing to please the expert on the board is a different requirement from needing to prove one has performed a reasonable interpretation of board policy.

Another version of this monitoring mistake occurs when the board finds that the CEO made a decision that none of the board members like and, because of this, decide that the CEO is out of compliance. While this board opinion is an interesting phenomenon, it does not establish CEO wrongdoing, since the crucial judgment is the one still pending: Is the decision a reasonable interpretation of board policy? Of course, it is possible for a CEO decision to be a reasonable interpretation of board policy and still be a decision the board does not like. But this situation says nothing about CEO performance (except to congratulate it). It indicates that the board needs either to change or to further define its policy, leaving a new range of interpretation that the board can live with. In other words, in such an instance, the error is in board policy, not in CEO action.

4. *Policy violation can mean one of several things.* When a board has found that a policy has not been accorded a reasonable interpretation by the CEO, it has no choice but to reject the interpretation. If the CEO has made a reasonable interpretation but has failed to accomplish it, the board must examine a number of possibilities. It may be that the violation is the result of a temporary and insignificant blip and will be righted immediately. The board may decide to take no action about such a violation, other than noting it. Or it may be that the CEO is performing below the level required by the board and that this constitutes a pattern that emerges through monitoring. Noncompliance trends should be noted and acted upon by the board.

5. *The board is not there to help the CEO but to instruct and monitor the CEO.* When a board finds that its CEO is performing below the required standards, it is sometimes tempted to fix, or to help the CEO fix, the problem. This is precisely the wrong thing to do, as it makes the board unable to hold the CEO accountable for fixing a problem and keeping it fixed. Accordingly, in the case of a policy infraction, the board must decide if it can wait the amount of time the CEO feels will be needed to restore functioning to the criterion level. If it can, it should monitor that the problem has indeed been fixed within the time allowed. If it cannot, it should consider replacing the CEO.

This is occasionally difficult for board members to understand, especially if some of them are managers in their own right. Managers know that management includes coaching and helping staff. Governors must learn that governance differs from management; the accountability placed on the CEO is not a burden that can be lifted from the CEO without serious damage to the board's overall accountability for the organization. Naturally, the CEO who is held accountable for policy compliance can request from individuals the help needed in order to deliver to the board what is required. The CEO can even request help from individual board members if they seem—to the CEO!—to be the most appropriate helpers. But allowing the decision about the need for help and the choice of helper to be freely made by the CEO enables the board to continue to hold the CEO accountable.

6. *The relevant question must be answered.* Unbelievably, we have encountered boards that fail to truly examine their monitoring reports to determine if they show that a reasonable interpretation of the policies was made and achieved. They accept reports that do not answer the questions posed by the policies. There are two variants of this problem. One is when the board accepts reports that are full of data but that do not address policy criteria at all. We have seen boards accept pages and pages of financial data purporting to monitor the requirement that the organization not spend more money than it had received in the fiscal year to date. But boards only require two numbers to monitor this policy provision, and mountains of information can serve to obscure the answer to this relatively easy but important question. Remember that too much information is much worse than none; having none is hard to miss, while having too much may be falsely reassuring.

The second variant occurs when the board accepts a report that affirms compliance without providing data. We have seen reports submitted by CEOs that merely include a statement by the CEO that everything is in order. These reports are of the "trust me" variety, disclosing nothing of substance to the board. Only more amazing than the CEO who submits such a report is the board that accepts it. We are not advising against the CEO personally "certifying" or assuring that policy provisions have been met, just making the point that such an assurance cannot not pass muster in the absence of presenting data as well.

7. *The monitoring report should contain both the CEO's interpretation and the relevant data.* We are sometimes asked if it would be useful for the board to see the CEO's interpretation in advance. It would prevent, goes the argument, the possibility that the CEO could spend months pursuing the accomplishment of an interpretation that does not please the board. As persuasive as this may sound, we do not recommend that the board preview the CEO's interpretation. First, assuming the board did preview the interpretation and found it to be reasonable, would this mean that the CEO was locked in to the use of an interpretation that had been "approved" by the board? If so, then "any reasonable interpretation" does not mean what was intended, that is, the granting of a range rather than a fixed point of authority. It would then mean "any reasonable interpretation the board has previously approved." But if the board is really to mean "any" reasonable interpretation, what was the point of the exercise? Second, reviewing and virtually approving an interpretation in advance ensures the board has in effect made policy beyond the level at which it had already agreed to stop. Third, the CEO was not required to make an interpretation that pleased the board, only one that was reasonable. It is much more consistent with a carefully crafted separation of the roles of governance and management for the board to carefully consider the range of interpretation that it is leaving to the CEO before completing the policy writing. CEO and other expert input can be very helpful during this stage.

8. *Monitoring reports should contain only monitoring information.* The board may wish to receive decision information at times, as well as incidental information. It is important to take care not to mix up different types of information in the same report, as they require

different responses from the board. The board must judge CEO performance using monitoring information, without using either decision or incidental information for that purpose. Cluttering up the pointed focus of a monitoring report with other information will be distracting.

9. *If a policy is worth stating, it is worth monitoring.* We have occasionally been surprised by a board balking at the need to institute rigorous monitoring of its criteria. Often the objection raised centers around the perception that a great deal of staff time will be used in preparing reports for the board. Traditional boards expressing such concerns forget that their staff already prepare huge amounts of information for them, information that does not relate at all to any stated expectations the board may have and that could be described as hundreds of answers looking around desperately for ten good questions.

There is no doubt that some staff time must be spent in preparing reports for the board that demonstrate organizational performance as measured against board criteria. Boards certainly should be careful not to demand reports from staff that they don't actually need. But a Policy Governance board that has made its policies carefully, defining its requirements to the level at which it can accept any reasonable interpretation by the CEO, has a set of rules that it has itself determined to be necessary. If it is necessary to set such rules, it is necessary to check them too! Remember that the board must state the frequency with which its criteria are to be monitored. There is no need for it to demand reports at a high frequency if it will be satisfied by a lower frequency. This also will limit the time staff spend in report writing.

Setting the Monitoring Schedule

Sometimes the monitoring problem for a board is simply not going ahead and doing it! We recommend establishing a schedule for monitoring as soon as possible after crafting the Executive Limitations policies. Go about doing that in three steps, each of which we outline. Then place the monitoring schedule you will have developed into the Monitoring CEO Performance policy (shown in Chapter Six) as subparts of Section Four. Here is the method we use. Try it.

1. Using a flip chart or other group recording method, list all the Executive Limitations policies in a first column. Head column two "method" and column three "frequency."
2. Now begin at the top of your list and for each policy answer the question, What source of monitoring data do we want?
   a. Let us suggest that with each policy, you begin with an assumption that internal report will be the method. It is the cheapest and, as it turns out, the most common monitoring source. With that as a point of departure, see if anyone can make a strong enough case for external report or direct inspection to get a majority of votes for either of those. We recommend you use direct inspection sparingly if at all.
   b. Be aware that at this stage, you might want to have more than one method or source per policy, but at different frequencies. For example, it is common for Policy Governance boards to monitor their Financial Condition and Activities policy once a month or quarter with data from the CEO (internal report) and once annually from a board-appointed auditor (external report).
3. Taking one policy at a time again, consider only the frequency of monitoring. Just answer the question, How often must we see monitoring data about this policy in order to feel confident about CEO performance? Here is how you can quickly determine your monitoring frequencies:
   a. Ask, "How many board members would be satisfied with once per year?" Perhaps a hand or two will go up. Ask those persons to leave their hands up as you go on to the next step.

b. Ask, "How many of you would be satisfied with twice per year?" A few more hands will go up, joining the first ones. All hands in the air should stay in the air as you go on to the next step.
c. Ask the same question for quarterly, then for monthly, at each point making sure that hands that are up from an earlier query have stayed up. When this cumulative voting method reaches a criterion level (usually a simple majority), you have ascertained the monitoring frequency for the policy in question!

As Ends policies are developed, use the same technique to define method and frequency of monitoring. Add these new determinations to your Monitoring CEO Performance policy. You may have noticed that our sample policy of that title shows a monitoring schedule that looks just like your flip chart version. For those policies monitored by internal reports, the provision of your Communication and Support to the Board policy ensures that the data will begin to flow to the board without your having to think about the matter after this point. For those policies monitored by either external report or direct inspection, the board will have to devise some scheme by which that will occur. If the board fails to do this, the CGO simply inherits the job, using any reasonable interpretation of whatever the board has said about the subject.

Although a board would normally rely on scheduled monitoring, it must retain the option of monitoring any Ends or Executive Limitations policy at any time it chooses. The board might have reason to suspect a material policy violation long before scheduled monitoring is due. An external situation may have arisen that amplifies the jeopardy presented by certain violations were they to occur. Or a board could simply feel that it is prudent to have occasional out-of-sequence monitoring as a demonstration of an unusual level of oversight.

Formal CEO Evaluation

If a board has chosen to use a CEO (which we heartily recommend), monitoring organizational performance simultaneously evaluates the CEO. In addition to ongoing monitoring, however, many boards wish to do a periodic—often annual—summary evaluation of their CEO.

We say "summary" because there is nothing left to evaluate after monitoring the Ends and Executive Limitations performance. The formal evaluation, then, considers the findings of all the monitoring reports received in the interim since the last formal evaluation. Taken all together, these findings add up to the CEO's total performance.

We see no problem in doing an annual summary, unless the board comes to see the summary as more important than the ongoing system. In fact, an ongoing monitoring system is far more likely to affect performance than an annual judgment, no matter how precise the annual version is. Monitoring performance does not exist primarily to produce a report card—though it does that. Its primary purpose is to affect performance. The primary purpose of an annual review is to provide a summarized version of how the board judges the CEO's performance. At the same time, it gives the board the opportunity to discuss the ups and downs of performance as demonstrated throughout the year and, based on that summation, decide whether the current CEO remains acceptable.

In an action apart from and after such a summary evaluation, the board might deal with compensation adjustments. There might even be bonus considerations, should a board choose that path. There are many good resources dealing with setting compensation and rewarding performance. We presume no special expertise in that arena, except to note that it would make sense to bonus on the basis of superior Ends performance, as opposed to performance on Executive Limitations. What we do strongly urge, however, is that in pursuing whatever CEO compensation system the board chooses, the judgments always tie with Policy Governance–consistent rigor to organizational performance as measured against a reasonable interpretation of Ends and Executive Limitations policies.

Next Chapter

In Chapter Nine we discuss the board's documents. The voice of governance is enhanced in Policy Governance inasmuch as board instructions, philosophy, and intentions are clearly the board's own, not mere reflections of what a staff has put together. Consequently, those instruments that document what the board says take on a different look, a different size, and a new significance.

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Reinventing Your Board

A Step-by-Step Guide to Implementing Policy Governance

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Miriam Carver

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