What Is This Business of Board Governance and Why is Policy Governance® Increasingly Popular with Christian Organizations?

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Feb. 2006 (revised Oct 2013)

As Christians, we are Biblically called to excellence. But how does a board truly meet such a high call? Unfortunately, one's personal board experience rarely lives up to anything near that level of rewarding performance, much less leadership. Should we capitulate to our less-than-satisfying board processes and assume there is nothing better? Or, are our concepts of board governance flawed and in need of overhaul?

Boards are entrusted with the stewardship of others' funds and assets. The board not only must set the ethical tone, but it also has an obligation to make sure the ministry lives up to the highest biblical standards. Sobering words for a board. Even more sobering is the ultimate spiritual accountability to God of Christian leaders and trustees for the conduct and effectiveness of the organization that they oversee.

What is the fundamental purpose of the board? The governing board is intended as a way for multiple owners (real or moral) to oversee, to steer or lead, their organization through a representative body acting as "agent" for the larger ownership. The idea of oversight and steering (or purposing) on behalf of an "ownership" has remained at the very root of governance. Governance is ownership one step down, not management one step up.

Today then, historically and conceptually, governance should be the method by which a board, <u>as a group</u> and representing a conceptual or real ownership (which could be legal, moral or spiritual), clearly expresses its collective values and expectations for the organization, and sees to it that the expectations are met.... in order to achieve the organization's intended purpose: that of producing something ultimately of value (tangible or intangible – spiritual in the case of Christian organizations) to the ownership - by producing something beneficial (tangible or intangible) for clients, customers, beneficiaries, etc. *This concept is true whether the organization is for-profit, not-for-profit, or religious!*

Frankly, boards have a hard time doing that. They do many other things that are not governance; good things certainly, such as fund raising or public relations, or overseeing programs or facilities, but not governance. Governance by its nature, assumes board leadership and intentionality with initiative. Any model that proposes less does not meet that definition.

The challenge occurs because a governing board, acting as a small group, must delegate its authority while sustaining accountability. How, then, can a board delegate its authority to achieve optimized effectiveness without losing control and accountability…especially when it meets only a few days a year and yet is totally accountable for the organization?!

The problem is compounded for boards because of group dynamics. Decades of group research demonstrate that group performance tends to sink well below the potential of the individuals in the group. It takes special skills to cause the group to rise above even the capability of the average person in the group and achieve synergy. That is the challenge facing the modern board. Often we try to pin the board's performance on the CEO,[1] burdening the CEO with both the board and the organization!

Yet the board literature, both secular and Christian, is filled with exhortations to vision, wisdom and excellence. Boards are told they should be strategic, visionary and values-based leaders. They are constantly reminded of their fiduciary responsibility (a modern term for stewardship). Robert Greenleaf in his writings on servant leadership urged that trustees lead in a heroic way, bringing excellence and vision to governance and the organization. He holds the board responsible for its own performance, not the CEO. *Good governance, structuring it and doing it, is fundamentally an issue of <u>board</u> leadership (not the CEO). The board must take responsibility for its <u>own</u> performance.*

But, knowing no better way, a board's mental model often leads it to fall into such usual practices as dependence on the CEO, reviewing reports, approving management requests and plans, asking questions arising from (usually unstated) concerns, poking around in operations, attempting to advise and "help," and dabbling in structure such as inventing more or different committees. *There is no leadership in reviewing last month's reports*, and the board ends up micromanaging or, alternatively, becoming too passive, but *in any case* reactive. They rarely even "set the moral tone," much less the purpose-based strategic ends for the organization. None of this activity results in proactive leadership, and board members burn out in the process. The fixes proposed are almost all structural. The fundamental problem is flawed process. Structure should be designed to support effective board process.

Furthermore, the usual mode of board operation, being inherently unstable as a system, can get a board into difficulty. It can lead to troubled, even adversarial relations with the CEO, or to placing *too* much trust in him or her – simply rubber-stamping and not effectively monitoring. Failing to adequately constrain executive power, boards that are ineffectively governing become inadvertently complicit in creating an environment that can be corrupting for the CEO. Many boards have discovered that fact too late to prevent serious damage or even catastrophe. "Unfortunately the history books are full of boards who knew too little too late," observes governance expert Robert Monks. In fact, the traditional board literature even talks about the "tension" between CEO and board as if it is to be expected. However, it frequently leads to complications or even conflict. Some individual ends up being blamed when the process doesn't work – the chair, the CEO or other board members, or even the board's "personality."

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[1] CEO here is used for the person given the authority and accountability for running the organization (president, executive director, etc.) and who reports to the board.

Dissatisfied with the lack of governance excellence, effectiveness, accountability and integrity in the old way, a growing number of boards of evangelical organizations are switching to Policy Governance®[2] as set out by Dr. John Carver in *Boards That Make a Difference* and his other writings.

Policy Governance contains numerous Biblical principles. It is based on common core values and the principles of governance. It provides an integrated process for a board to satisfactorily govern according to those principles. It teaches a board how to be an effective steward of the organization on behalf of a legal or moral ownership. It insists on integrity of clear values, policies and monitoring, providing role clarity, thereby engendering trust. It provides the board with tools and methods to clearly develop and express its vision and values, convert them to policies, and to monitor organizational and board performance against those policies, sustaining accountability both for management and for the board itself. It enables proactive leadership while it values empowerment of management with appropriate limitations. The pieces fit together, having coherence, so the whole thing makes sense.

This gives the board "leadership leverage through a few well-crafted policies."[3] The policies express both the purpose and desired strategic results (ends) the board wishes (after extensive discussion with owners, the staff and experts), and prohibition of any actions that are contrary to board values. The CEO runs the organization to achieve the established ends and avoid the prohibitions. The board empowers the CEO by sticking to its word and staying out of operational details.

When implemented correctly (and completely), it is extremely powerful and satisfying for both a board *and* the CEO. The CEO and staff are free to use the best methods to achieve the ends while avoiding the prohibited means. Finally, careful and regular monitoring against the stated policies closes the accountability loop. Hence, the board and management can function as a team.

Policy Governance is based on a set of underlying values[2]:

- That there is a larger "ownership," real or moral, to whom the board owes its accountability and allegiance.
- That the board, *as a group* can add value for this ownership. (Otherwise, why have a board?)
- That accountability is not broken – that there is continuity or integrity to the accountability chain, including follow-up monitoring.

[2] Policy Governance is the registered service mark of Dr. John Carver who developed this form of governance and originally published it in *Boards That Make a Difference*.
[3] Winger, Larry*, Christian Standard,* 3/31/02

- That the board, *as a group*, clearly expresses its values, (according to which the organization is run).
- That there is optimized freedom for management to act. A balance between freedom and control can be struck such that the CEO is optimally be empowered to run the organization - within and according to the board's expressed values and its stated expectations of performance.

From these derive a set of principles[4]:

- The board, not the CEO, bears the responsibility for the integrity and quality of governance. Primary responsibility for board development does not rest with the CEO, staff, funders, or government. It rests with the board.
- The board's collective responsibility is to add value, *as a board*, and that value is the board's governance functions.
- The board's proper exercise of owner's authority is the beginning of the accountability "chain."
- There are three "products" that cannot be delegated by a board. They are unique to the board:
  - The organization's linkage to the ownership,
  - Explicit governing policies,
  - Assurance of executive performance.
- Once policies are established, the board does not intrude inside the boundaries framed by the board's policies, giving freedom to the CEO within the limits or restrictions on actions unacceptable to the board.

All Dr. Carver, the author of Policy Governance, did (although it was a tremendous conceptual breakthrough) was approach governance using a principle-based, logical rigor and from that derive an approach, or governance methodology, which is an integrated system of principles and methods that preserves congruence and integrity – so that the pieces fit together and the whole makes sense. When a board follows the principles, it results in accomplishing everything boards are told they should be doing. This makes it gratifying and rewarding for the board and empowering for the CEO.

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[4] All these can be found in John and Miriam Carver's published works, especially *Boards That Make a Difference*, 1997, Jossey-Bass.