A Wholistic View of Ministry Board Governance

Comments on the Function of a Governing Board and the Role of Best Practices

Richard M. Biery,
The Broadbaker Group

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Since Christians are biblically called to excellence, and board governance is the highest discrete level of authority and accountability for our contemporary organizations and ministries, it is vital to understand how excellence operates in the realm of the idea of board governance. This paper examines particularly the relationship between "Best Practices" and excellence in board governance.

"Governance," (Gk - *kubernao*) originated in Greek vocabulary and came down to modern English via the Latinized word "*guberneo*." It originally meant to give (destination or navigational) direction to a ship—either by the pilot or captain or owner. The *kubernetes* was the individual who ordered the way or direction for the ship. It is used that way in the Bible in two places, one in Acts 27:11 where the centurion over Paul paid attention to the *kubernetes* and not Paul and permitted the ship to try to beat the winter storms to Crete. (It didn't.) The other use is in Rev. 18 where those at sea, including the *kubernetes* (pl), stood at a distance and watched the destruction of a future Babylon.

But the same root word is used in I Cor. 12:28 as a gift of the Spirit, meaning the gift of being able to wisely set direction or provide strategic leadership.[1] In Greek usage, this, too, became the general meaning of the word—to set direction or purpose, to provide strategic leadership, often on behalf of the owner (or higher authority).

In the late 1400s the Western World married this word with the new corporate invention of the "board"—the group of owners (stockholders) who oversaw their organization and directed the CEO. They met around a "board," or table, and hence, got their name, with the presiding officer meriting a chair, as opposed to a bench, at the head of the board or table—the chairman. Hence, board governance became two combined ideas—governance, the setting of direction (for a beneficial end) and protective stipulations, *and* delegation of execution of those expectations to a chief officer—a delegatory function.

What, then, is a "Governing Board?" (and) What is its purpose? Historically, then, (for 500 years in western law) the governing board has been defined as the group that has collective, (joint, or shared) authority over, and accountability for, an organization on behalf of owners or a supporting constituency, (legal or at least moral or spiritual).[2] Thus, the group must blend or combine the two ideas of governance *and* delegation to a chief officer using principles of both governance and delegation. The optimum effectiveness of this group approach to leadership has been a vexing issue down through the centuries; leadership via a group is not easy, especially reifying the combined or blended, ideas of governance *and* top level delegation—both subject to their own standards.

To achieve effectiveness and excellence, the idea of governance must incorporate, or be subject to, key biblical principles. Many of these principles, of course, are recognized and applied as well to general secular management and leadership, and often have been developed and clarified in a secular setting better than in a "spiritual" venue, frequently by believers in a secular application, e.g., Peter Drucker, or Ken Blanchard. Nevertheless, all truth, including true wisdom is God's, with the Bible being the final test of applicability.

A second vital principle deriving from the idea of excellence is that of an elegant wholeness or system-ness—an integrity of function to achieve a purpose (i.e. it has a teleology). The Hebrew idea of beauty as used in Eccl. 3:11 speaks to this. We see this principle throughout the Bible and nature. God is a God of purpose–directed systems. Proverbs urges us to develop deep understanding or insight (Heb – *daat*) of what it is we must know—almost invariably a set of functional workings and relationships constituting

[1] In the KJ it is translated "administration" —not a good translation for modern usage.
[2] Some writers stop with simply advocating accountability to God and the purpose of His glory. However, this fails to acknowledge temporal moral, and sometimes legal, accountability to others deriving from fiduciary relationships we entered with others to use their resources to accomplish more proximate and assessable ends—ends, the achievement of which can be assessed by others. Proximate accountability to others is biblical. It is dangerous for a leader to deny or dodge this level of accountability.

what today we term a system. If we do not deeply understand the system in question, Proverbs warns, we'll lack the necessary understanding to lead well.

Purpose:

We typically use vague terms for the purpose of board governance, but vague terms do not aid the acuity of our thinking. For example, **governance** is often referred to as "oversight." However, there must be *purpose* to that oversight entity, (oversight for what purpose? A jailor has oversight—over prisoners!), so it is more accurately and better defined as -

> **Holding full authority and accountability for the performance of the organization, setting its direction (purposes) and protective limits (safeguards) and assuring that both occur.**

Note how similar this is to the job of the Greek *kubernetes* mentioned earlier—to set the direction for the ship and keep it out of danger. However, effective delegation must also be used in the process.

Putting the two together:

A governing board is the group that, as an entity, has collective, (i.e. common or unified) authority over, and accountability for, an organization on behalf of a constituency, legal, moral, or spiritual, and therefore holds full authority and accountability for the performance of that organization, setting it's direction (purposes) and limits (safeguards or risk protective expectations) through delegation to the organization through an organizational chief officer and assuring that its expectations occur.[3]

(Note that this definition encompasses all the fiduciary accountabilities of the board.)

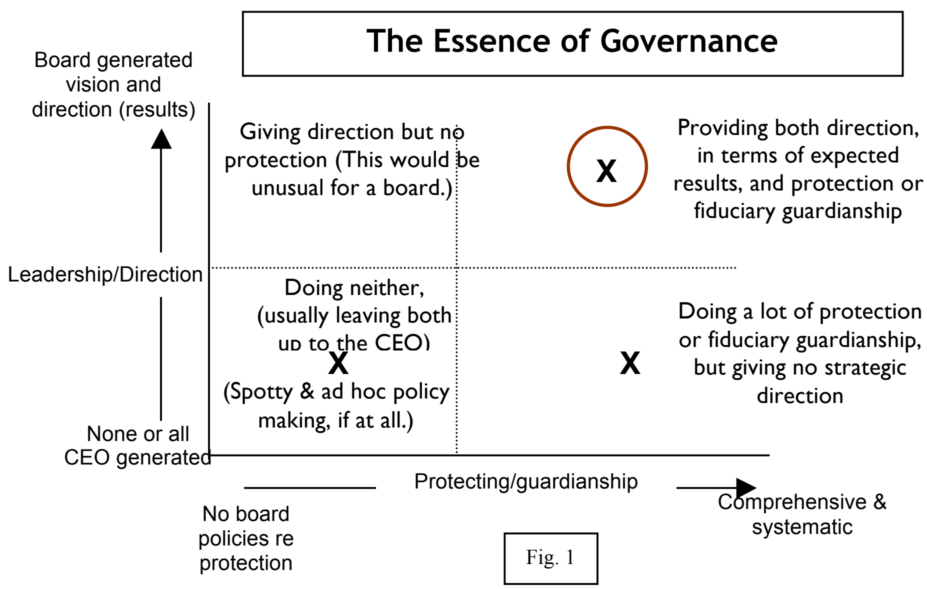

Fig. 1

Jim Brown said it succinctly - the board is responsible for *both* organizational direction *and* protection. (cf. *The Imperfect Board Member*, Jim Brown, Jossey-Bass, 2006) Essentially, that defines governance. (See Fig. 1)

Other definitions of board governance in the literature:

> *Collective leadership and oversight by a group reflecting ownership interest in creating value for a beneficiary that returns in some way to the owners while protecting the organization.*

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[3] See footnote 2. Also, Boards can have more than one officer to whom it directly delegates but this is not usual nor is it deemed good practice.

AICPA: *"Responsibility for overseeing the strategic direction of an entity and obligations related to the accountability of the entity."*

John Carver: "*The purpose of [1] the board's job is, [2] on behalf of some ownership, [3] to see to it that the organization [4] achieves what it should and [5] avoids what is unacceptable*."

If a board does that (looks to the future & stipulates the intended future while protecting the organization and assuring it has a CEO who can do that), it is governing. It may not be governing well, but those two activities constitute the core of governance. Absent those—no governance. Absent effective delegation of those expectations—no board governance. Therefore, best practices lists, assessments, and the like, unless they include the core purpose of the board, lack key (necessary) substance and are unhelpful regarding explaining governance itself, and may, in fact, do harm by leading people to believe the board is really good, while in truth it is not effective when judged by its purpose.

Diagram of the blend of Governance as a Principle and Delegation as a Practice:

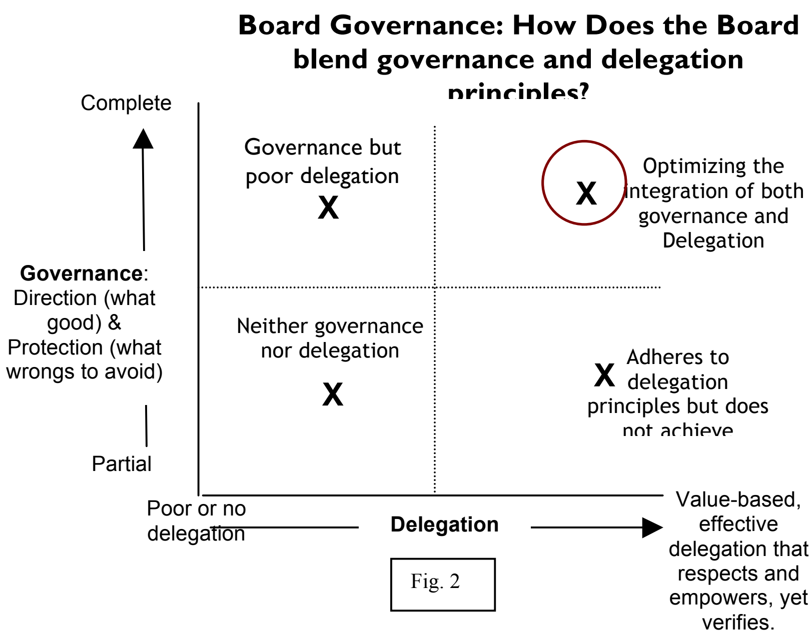

Fig. 2

<u>**Concerning the idea of best practices as the approach to teaching governance:**</u>

What about "best practice?" Concerning the achievement of excellence in board governance, "best practices" (hand picked by the proponent) are very commonly promoted as the approach to use that leads to good governance. However, there are two problems. A collection of best practices, no matter how spiritual sounding, do not necessarily, in fact, lead to good board governance if they do not first advance a board toward its core purpose—that of governing! Secondly, the very concept of best practices as an optimizing method violates a fundamental systems principle. Best practices and their underlying values are interdependent; they affect each other and overlap like circles of a venn diagram. They are not mutually exclusive and independent, which suggests that they are, beneath the surface, a *system* of values and best practices, (page 8).

The parts take on meaning when the whole is understood. This is an important systems principle as well. The parts have meaning only in context with the whole and with what the whole is designed to accomplish! Describing a part of something does not give it meaning. It derives its meaning in context with the whole and with the whole's meaning. Even describing all the parts does not lead to meaning. The meaning is not found through the parts of an entity. One must transcend the thing to an even greater context to discover its meaning. (Russell Ackoff) Hence, a "best practices" understanding of Policy Governance is an erroneous paradigm.

We see this in creation. God is God of systems–elegant, beautiful, efficient and effective systems, and He has equipped us to also grasp this concept. A bird is purposefully designed as an integrated, interdependent systems of components, perfectly fitted together to accomplish and optimize what that bird was intended for.

Slapping "best practices" together does not produce an integrated system with intentionality and purpose, including board governance. Systems always have purpose–an end in mind. In fact, best practice commonly lead to degradation of performance, because they are non-integrated list of someone's idea of good things to do!

Johnny Cash has a wonderful, humorous song that illustrates this point, *One Piece at a Time*. In the song he works at an auto assembly plant and decides that he will build his own car by pilfering parts over several years. You can imagine the results. He has to force parts to work together, and the result is a monstrosity. The Oct. 2014 of *Rescue*, the Association of Gospel Rescue Missions publication focused on board governance and was a wonderful illustration of this way of thinking; it had no less than nine lists, ranging from 5 to 25 adding up to 87 pieces of advice!

The Role of Biblical Values:

Secondly, the values and wisdom that the board brings to its board process and to its dynamic (how it acts as a group) determine *how well* that governance is carried out, i.e., *how* the board delegates and assures performance (monitors).

For example, John Carver, in thinking through his comprehensive systematic approach to board governance, recognized and began with the fundamental *purpose* of governance, and in designing the integrated processes that he would eventually recommend (the Policy Governance® model[4]), also adopted explicit values vital to good delegation and effective leadership to guide or constrain the nature of the process. These were *integrity*, *clarity* (not confusing, uncertain, or muddled), *servant leadership*, and *empowerment*—freedom to execute while being subject to values–based constraints, (see below). These values, collectively and working together, are vital to proper delegation and to good governance. I refer to these as the feature values of Policy Governance.

But values and hence, best practices, by themselves, do not constitute governance, per se, nor does doing them. We adopt values because we believe they will make the governance or delegation better in some way, or as trustees, we are assured that values we hold will not be violated by the organization for which we are accountable. Hence, the board's process must be designed to enable the board to achieve its purpose (governance and delegation) while complying with our desired values.

Therefore, there are many values that pertain to board governance, some go without saying and others are unique and require more thought. Note that these values must address both governance and delegation. In other words, the board *process* and dynamic are subject to many values, constraints and duties, none (or all) of which, in and of themselves, constitute governance, but do contribute to good governance. They could be used as tests of best practices, practices that do not guarantee governance, but if missing, degrade or seriously damage it. Below, not listed in any particular order, are several that I look for:

- *Legality*: The board obeys the law and assures the organization obeys. But obeying the law is not governance, it is just legal governance.

[4] Policy Governance is the registered service mark of Dr. John Carver. The authoritative website is www.carvergovernance.com.

    - Care (Duty to diligence, and reasonable care in information gathering, its use, deliberation and decision-making.)
    - Loyalty (Unconflicted loyalty and good faith to the purpose of the organization and the conceptual ownership, not loyalty to insiders or special interests or to himself (not self-serving).)
    - Obedience (Obedience to the law and to its documents and policies under which it serves.)

      (These three together constitute the idea of faithfulness to the board's duty.)
    - Other more recently stipulated legal requirements, such as pertinent sections in the Sarbanes Oxley Act such as whistleblower protection and document disposal, (depending on the nature of the corporation).

- *Integrity*: The board conducts itself with integrity and assures that the organization conducts itself with integrity. Behaving with integrity is vital to governance, but it is not governance. Does the board stick to its policies and rules of conduct? Does it keep its word? Is it reliable? Are board members trustworthy? Does it express its values in terms of virtues and act virtuously? Etc.

- *Ethical or Virtuous*: Beyond simple integrity, all boards, but especially faith-based boards, should assure that their expectations for the behavior of the organization comport with their value or belief-based principles and values. This is particularly true of its culture and behavior. Not doing so would still be governance, but not good governance.

- *Clarity of voice*: Scripture asks the rhetorical question, "How can there be a proper response to an uncertain or unclear call of the horn?" Lack of clarity of voice from board to chief executive is a very common problem of boards. Even though we may say the CEO has one boss, the board collectively, in a large percentage of boards the CEO hears 12 voices advising, telling, suggesting, etc. The CEO must hear a clear single voice from the board. This is called the "one voice" principle. The board, after sufficient information and discussion, must express its expectations with one voice. That means a voted expression of intent, value, or perspective, i.e., a policy.

- *Clarity of values*—values for management to understand and by which to manage: Has the board spoken as a group with one "voice" so that management can understand and execute against those values in a way that does not disappoint, either by misunderstanding or failure to accomplish what was expected? Most boards fail to do this with any coherence or comprehensiveness. Any single voice (policy) the board typical board usually articulates is issue-driven, reactive, and therefore spotty.

- *Coherence*: The board's instructions, policies, etc. must be coherent and hold together. Not be in conflict. Are the policies sufficiently seamless (coherent) to adequately protect?

- *Consistency*: The board's actions over time should also be consistent. Many boards are not.

- *Prudence*: The board should assure that the direction and constraints it places on the performance of the organization are prudent—keeping the organization out of all sorts of trouble, meeting audit and financial standards dealing with internal controls and risk reduction; however, not just financial risks, but the many other risks to which an organization is subject. Not doing so jeopardizes the organization. Stating these well and with comprehensiveness is part of good governance.

- *Awareness*: Robert Greenleaf and others have pointed out that attention to, or awareness of, one's situation and what is transpiring around him is an attribute of leadership. Does the board know what is going on relevant to its duties and future? Is it alert? We all have seen boards ignore financial decline and danger signs as the organization gets into increasing trouble. (See S*pine* below)

- *Transparency*: Appropriate transparency, often thought of as its own virtue, is actually a means to a more fundamental virtue—*trustworthiness*. The better the public and supporters can see "through" and understand organizational actions and intent, the more likely the organization is to act virtuously and be trusted because of it. But transparency is not governance; it lends (and is essential) to being a successful organization.

- *Empowerment*: Empowerment is a value articulated by Carver and no one else. Empowerment derives from the value of respect and is the coherent alignment or agreement of the authority one is given with the accompanying accountability to do the job they have been given. It is intended to assure delegation of accountability and authority from the board to management in a way that maximally frees management to lead the organization creatively and with excellence while permitting the board sufficient confidence in compliance with board values to enable it to sleep at night. It is not abrogating or rubber stamping but expresses expectations in a manner that accomplishes true delegation of accountability (and authority) and checks for compliance. I consider it a vital best practice.

  We often miss the fact that empowerment—freedom to do what is needed to accomplish an assigned end is a biblical value and began in the Garden! God optimally empowered mankind (with one protective limitation).

  Note that in a proper approach to empowerment *neither* rubber stamping nor meddling is good. Therefore, *a balance of the two cannot logically be good*! Yet that is a very common concept and taught by authors, academics, and consultants all the time. To achieve the delegation mentioned above takes a different approach, a different paradigm. It is not some "balance" between meddling and unfettered freedom. To have it work, we must approach empowerment as God does.

  See the following diagram that marries the idea of empowerment with monitoring to assure compliance (no accounting, no accountability):

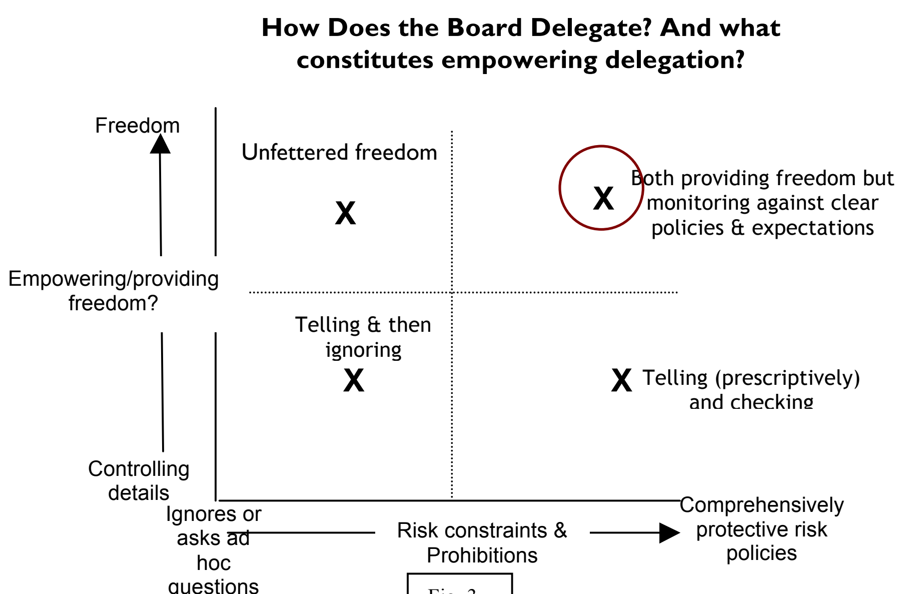

Fig. 3

- *Clarity of roles and boundaries*: Has the board expressed itself in a way that clarifies and maintains the role boundary between CEO and board? Much conflict occurs due to lack of clarity of roles and boundaries in this area. Boundaries may shift from time to time but need to be sufficiently clear. When the boundaries and roles are clear, board and CEO can have a healthy and trustworthy relationship. Boards must take care that they do not inadvertently create structures, e.g., officers, committees, or processes that confuse roles and muddy delegation.

- *Servant Leadership and Stewardship*: Does the board recognize its own both temporal and ultimate accountabilities, its trusteeship, as part of its basic governance functions, and does it strive to understand that accountability? (see also footnote 3) The implication of this vital value is that the board strives to understand for whom it governs—who would it consider as part of its supporters or "investors," conceptual or real, its "owners,"[5] (legal or moral), e.g., stockholders, the citizenry, those taxed, or those giving, volunteering, praying, etc. and who would be counting on the board to govern well and strategically? And, as a result, does the board then actively engage continuously in a method to do that—to constantly understand that group, however ill defined, and their hopes and expectations for the organization in which they have invested?

The board governs on behalf of that constituency, not vendors, not employees, or not even beneficiaries/customers, although it has other ethical (and legal) duties and obligations for each of those groups as well. Concerning the organizational accomplishment of results in the lives of beneficiaries, as it acknowledges its stewardship/trusteeship, the board discovers there is a necessary systemic alignment between its owners' interest and the organization's beneficiaries. (By the way, this principle drives the organization toward performance improvement and systems thinking.)

- *Wisdom*: Does the board diligently seek wisdom? Proverbs sets out five major components of wisdom,[6] a.) The willingness to be a student and learn (many board fail even this initial condition), b.) The capacity for discernment between right and wrong, the wise and unwise, c.) Common sense using this discernment to avoid the imprudent, d.) Sufficient knowledge and competence to identify the correct end and know how to strategically (and tactically) achieve it, and e.) The attainment of deep understanding or deep insight concerning the item in question. (And the cycle repeats.) Many boards are unwilling to invest the time, money and effort to even accomplish step one, much less step five. Most boards do not invest (budget the funds) in their own growth and learning yet they are the top level of authority and accountability!
- *Grace–based interpersonal character*: This concerns the way board members relate and dialogue together. Many people have interpersonal habits that undermine or destroy relationships and ruin the capacity to have a healthy board dynamic. The jerk list can be long. Proverbs has much to say about our tongue. It is important for board members to know themselves and be able to engage humbly in a dialogue of truth with grace.
- *Currency*: Does the board stay current with both things that could affect its intended direction or could affect the boundaries it has placed on the organization or their compliance? Proverbs is clear that wise people constantly seek the information (and deep understanding) to lead wisely.
- *Efficiency*: Does the board govern efficiently, not wasting the valuable time of its members? Does it devote sufficient, but not excessive, time to meetings? Efficiency does not necessarily mean committees.
- *Excellence*: Does the board continuously strive to improve its governance and savvy concerning those things vital to its wisdom and performance? Does it at least resist sliding backward? Is it a learning board? How does it learn? Is its learning relevant? Do board members strive for good dynamic? E.g., do they show up?! Do they do their homework? Do they dialogue effectively for good collective insight and decision-making? Do they get refresher training? Do new members get trained? Etc.
- *Assurance of perpetuity*: Does the board realize that it is viewed as a perpetual legal organ/entity of the organization and uses processes that sustain the quality of its governance and learning? Does it look ahead—far ahead, or does it create structure and mechanisms that foreshorten its capacity for vision such as terms limits, or short terms, especially for officers, engendering frequent turnover and failure to retain past learning. The quality literature is clear, excellent organizations retain their learning.
- *Initiative*: Independent initiative means that the board is not passive in its governance, waiting to react - e.g., to reports or requests from management, or circumstances, or the CEO telling it what to do, what needs approval, or even what the agenda should be. There is no leadership in reacting to and

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[5] "Ownership" is a term of art with specific implications and best describes the role above, although a little strange to the ears in the non-profit and ministry world. Nevertheless the owner–steward model is common in Scripture, and board governance is based on it. It is the term John Carver selected. Similarly, "End," a teleological term of art, is the term used for *purpose*. In Policy Governance, Ends have three aspects, results, who benefits, and issues of resources used. I like these better than other terms in use because of their etymological precision.
[6] Derek Kidner, *Proverbs*.

approving reports. The board proactively decides on its values, policies, plans, and agenda. I look for indicators of being proactive. Is the board also proactive regarding assuring that it has a CEO who can lead effectively as an executive to accomplish the board's expressed expectations? Is it also is capable of expeditiously correcting a hiring mistake. (See also "*spine*," below.) Is it also proactive regarding selecting its chairperson who must optimize its governance and decision-making?

- *Tenacity*: Does the board stay the course it has set for itself and the organization or does it change its collective mind with every wind? Does it start out committed to excellence and two years later quit? Does it pass a resolution to do something and then not do it?

- *Spine*: A vital part of governance is *spine*, sometimes called moral courage or even sternness. Spine is often difficult for boards, especially for ministry boards and especially for boards with long term CEOs or a founder to whom it is attached. Spine is difficult to describe. It is the attribute that a board realizes that it is governing at all times for the best of the organization and the purpose of that organization and its long term wellbeing—that it is capable of insisting on performance and compliance. That it is serious about its governance. That it uses the full range of incentive tools available in working with the CEO to encourage, create incentive, and correct. That it is capable of changing CEOs when the present CEO is not equipped (or willing) for the job—achieving the purpose of the organization and avoiding the limits placed on it, such as keeping the organization out of fiscal jeopardy. The board is able to be friends with the CEO but does not confuse its loyalties or duty. This is a major cause of organizational failures, both in the for-profit sector (and even very big companies) and the ministry world. Spine is vital for good governance. It prevents disaster.

- *Knowledge of governance*: How well does the board understand governance, (which is its most important job—the job for which it exists)? Does it attempt to advise or "help" rather than govern? Does it recognize practices or structures that degrade its performance? Does it do things that damage the integrity of the board's capacity to function as an entity? (E.g., delegate key board power to a committee, such as a finance committee or an executive committee.) Does the board have mechanisms that enable it to stay fresh and even grow in its knowledge and performance as a governing board? Can it find and appoint a CEO capable of effective leadership? (Research suggests that around 50% of leaders are failures (Rabstejnek, Carl, *25-50-25: Competent—Good Enough—Incompetent Leaders and Managers*). Finding the right one is not easy.)

- *Passion for the purpose of the organization and a Kingdom perspective*: The board should own the vision or purpose (Ends) of the organization, however it is expressed. It is passion, the intense desire to see the organization create the desired results and avoid dangers, that keeps the board engaged and from lapsing into passivity. (See *Spine*, above)

  Obviously, ministry purpose(s) should tie to Kingdom purpose(s) such as the Great Commission, and the board should have a sense of the transcendent in its governing. However, the greater the specificity and clarity the purpose has, the more energy it creates. (See initiative) And, of course, the board should put its money where its mouth is in terms of board member personal support.

But these value-based constraints and duties do not, per se, constitute governance, only the effectiveness or quality of that governance. They are necessary but not sufficient.

Typically "best practices" are about an honest attempt to serve these values, constraints and duties, but even when they are met, they do not necessarily assure that the board actually governs!

Ministry board governance is the nexus of transcendent purpose, transcendent values, and our temporal (and human) duty and accountability to act wisely, purposefully, and productively in service to both. Board effectiveness depends on wise structure, healthy dynamics, and intentional processes that act in concert to create a product—the creation of governance articulated values and the delegation of them (and the accompanying decision rights) to a chief executive. In other words, board governance should be a purposeful system, the result of which is wise and effective direction and protection delegated clearly, accountably and powerfully to the chief executive.

The Myth of Best Practices as a Method to Achieve Optimum Performance Doesn't Work:

When best practices are a list of methods or practices for a board to do, two fundamental problems are introduced. First we encounter "best practices" as someone's favorite list. It varies from proponent to proponent.

More significantly however, the "method" of best practices is contrary to a fundamental principle of system dynamics and organizational performance. When we attempt to individually optimize each of the components of a system, we invariably suboptimize the system as a whole. "Best practices" as a theory or philosophical approach to governance improvement, or any purposeful improvement, is the advocacy of just that—asking a board to engage in performing a list of alleged best practices—with the assumption that adopting and optimizing all these practices will optimize the governance, a fundamentally false premise!

If I can convince people that governance, like leadership or management, is, in fact, a *system* of processes founded upon values, wisdom, and systemic principles, a leap in conceptual thinking will occur. Then we can talk about the key components of the system and understand and evaluate the processes *in the context of their best role in the system* with the intended objective of optimizing the governance of the organization.

What do I look for?

A. So, in checking a board's performance I want to know first whether it is actually governing.

1.) Has it explicitly, with enough clarity, set the direction (purposes or results or ends the organization is to achieve) and does it own that direction. Further, has it addressed risk with sufficient clarity by setting the boundaries or safeguards, for adequate protection of the organization - across *all* areas of its risk exposure?

    Furthermore, I look to see if these stipulations on the organization are clearly the voice of the board as a whole (since the board governs as an entity). The only logical and best way to do that is for the board to write its expectations down, i.e., instructions or policies. And, to fully govern, it must address *both* components of its fiduciary accountability, *direction* and *protection* in its policies.

    Also, it must express itself with enough clarity (a value) so that management can comply, but not so intrusively that it demoralizes (a value), i.e., telling management in great detail (or *any* detail) what to do. In terms of direction setting or purposing, the board can select exactly how far it wants to go in defining purpose, but in doing so, it faces the same issues. This direction–setting is the board's contribution to the strategic plan. (Messing in, or "participating in," management's part of planning risks accountability confusion.) [See both figures 1 and 2, which, together, represent a three dimensional conceptual construct.]

2.) How does the board regularly seek to understand those for whom it governs—those we have termed its owners—or supporting constituency (legal, moral, and/or spiritual). Since the board governs on behalf of a larger accountability to a (often silent) constituency of these owners (not just God), it has a duty to connect and understand their strategic expectations for the board and the organization, not as beneficiaries but as "investors" in the organization, (e.g., donors, volunteers, voters, tax payers, , etc.) for an effective and sustainable organization. It also has a duty to understand its transcendent Owner and should know and understand Scripture sufficiently for this level of leadership. (A topic for another paper)

3.) But our definition is not yet complete. Accountable assurance is vital. Saying what the board expects and wants is one thing, but *assuring* that it happens is also an essential part of governance. The manner of servicing this assuring duty is, (after assuring it has a competent CEO), *checking to see that it has been done*, i.e. monitoring. To achieve integrity (one of our values), the board monitors against what it has said, not what it hasn't said. Therefore, it has had to say it with reasonable clarity and completeness. If you haven't said it, you can't judge it.

The board can check (i.e., monitor) in any way it deems appropriate and efficient, management reports on compliance, an independent check (audit) by an outside expert, or board members themselves checking. Most boards usually accept management reports (concerning compliance) as acceptable monitoring except for periodically requiring an external financial audit (or review). Note that a management report on just anything does not constitute monitoring, nor does giving the board a bunch of reports, financial or otherwise, and saying in effect, "You tell me if I'm in compliance." (When that happens, such as in reviewing financial reports, each member brings to the deliberation his or her own individual values and voices them as opinion and advice. Unless the board, collectively, has explicitly stated its expectations concerning financial performance, or any other area of performance under review, it has not expressed its values coherently as a single voice.) The typical board reviews reports, financial and otherwise, without ever stating in writing the joint expectations against which it is reviewing those reports. Just reviewing reports is neither leadership nor governing and lacks both integrity and coherence.

Simply saying that a best practice is "reviewing reports," or "asking good questions," per se, does not constitute governance, much less *good* governance and is not a best practice as typically practiced by boards. A specific type of report is vital—the "check it" report—monitoring that specifically tells a board about the status of compliance with its expectations, including values.)

Note that effective assurance also sets the conditions for fair and effective CEO assessment. If the board has stated clearly its expectations in terms of results and the risks and practices to be avoided, (those that are not justified by the ends), as well as the values it wants assured operationally, it can now assess the CEO against those expressed expectations.

See the diagram below to understand the dimensionality of what we are saying.

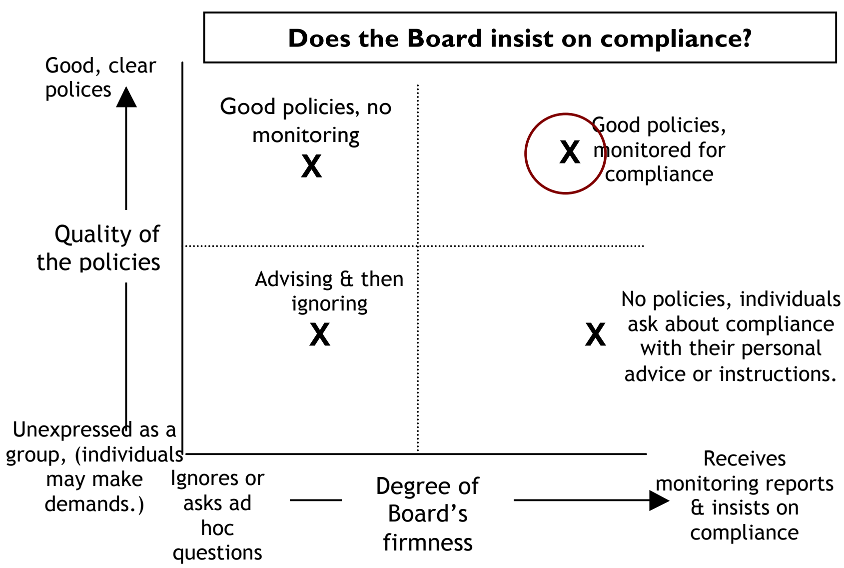

Fig. 3

4.) Lastly, then, does the board conducts and aligns its evaluation and reward process to encourage and ratify the seriousness of its intent—that it means business? (This reflects the values of integrity and coherence.)

B. Secondly, I look for how well the board serves the values that I think should be present. Counting the above list results in at least 23 values. And the list is not exhaustive. These values suggest attributes, practices or the avoidance of practices that would violate the values or damage the capacity of the board to govern.

Other Issues that affect the quality of governance

Structure:

We haven't talked at all about structure, but there are several structural "best practices" that optimize the capacity of the board to govern and comply with its values. For example, don't be too big. Research shows decision-making quality deteriorates beyond 7 or 8 in a group. Don't meet too infrequently. Sufficient diversity is healthy (usually) to good dynamic. Minimize committees. Keep board offices separate from corporate offices and to a minimum, and don't make any board member a corporate officer. (For example, as generally construed in law, a treasurer or a president (chief executive) is an organizational officer with operating authority and can, for example, be sanctioned for tax violations of the organization.) For the board, stick to the office or function of a chair responsible for optimizing the governance of the board (and its dynamic) and perhaps a vice chairman, as stand-in for the chair. The secretary is a corporate officer over official records, but need not be a board member. (The person who takes the minutes does not need to be the official corporate secretary, but the corporate secretary is accountable for the final records.) Don't use titles that confuse function or authority, e.g., "President" for the chairperson. In normal usage a President is a senior corporate executive officer typically over a major component (or all) of an organization.

Don't create any committee that is aligned with an operating component of the organization such as a traditional finance committee, curriculum committee, or HR committee, etc. Don't damage the board's long term commitment or perspective or its learning, (e.g., by creating term limitations under at least 10 to 12 years).

While we believe board member terms are important and useful, avoid if possible, short terms, (e.g., one or two years), and other mechanisms that induce frequent turnover. (You want a learning board and one that remembers what it learns, not perpetual novices.) The reasons for limiting the number of terms a member can serve (referred to as term limits), e.g., two terms, are based in myth and folk tales and represent an excuse for board timidity (or ineptness) in dealing with member misbehavior and dysfunction. It has been rhetorically asked, "Would the Berkshire Hathaway Board have been any better off if it had compelled Warren Buffet or Charlie to exit the board after two terms?" Such foolish thinking.

Role of board dynamic:

Healthy group dynamic is vital to wise decision-making and performance assessment. The board should understand healthy group dynamics and critical decision-making principles, and the Chair, especially, should know how to lead such a process. That is another paper. But note that the best dynamic in the world will not result in governance without a process or set of principles and tasks that result in governance!

As mentioned earlier, diversity is important for good dynamics. But diversity for the purpose of "representation" is a structural myth. A board is not a legislature. There is immense diversity in the constituency, and a board cannot "represent," by its membership, the width and complexity of that diversity. If it thinks that is a good practice for purposes of representation, it is fooling itself. However, it *can* and should strive to understand its constituency by constantly dialoguing in a variety of ways with diverse portions of it.)

System implications:

It is useful to think of governance with three vital components: Structure, process, and dynamic (with healthy values centering it and driving all). Think of an equilateral triangle with each component at a point of the triangle and values in the center. Each needs to be "designed" or created in a way that optimizes the system as a whole. Any single one done poorly will degrade or even ruin the governance. Consultants and academics tend to jump on one or the other as "governance" and fail to realize the system-ness required of governance. If researched independently, amazingly, it is difficult to show independent effect. No wonder.

Strategic Implications:

Strategists also warn against the idea of best practices. They point out that when best practices are followed by every organization it levels the competitive playing field; in other words, they remove distinguishing features between organizations, the heart of strategy. Strategy is designed to distinguish our organization and create leveraged excellence in some special way against impediments—the market or an enemy, for example. Best practices defeat that. World War I was the use of best practices of the day by all the combatants!—With disastrous results in terms of waste. Strategy is fundamentally a design function. Design always invokes the earlier point made concerning the creation of a system that excels. This doesn't happen under best practices.

What about other jobs the board may take on? Should it?

The board *can* take on duties such as service activities, not related to governance, per se, such as fund raising or lobbying. The board should have policies governing the conduct of fundraising (and any designated use of those funds), however, fund raising itself is *not* governance (much to fundraisers' disappointment), and boards are generally not equipped or expert. They *should* be expected to support the organization's fundraising with their resources, network of contacts, and efforts, if possible. The board should not take on duties that compromise its time and ability regarding its governance. No one else but the board does governance. It is up to the board. When the board does take on such duties, it should make clear (by policy) the role it is taking (and the boundaries) and for what it is holding itself accountable and for what it will now *not* hold the CEO accountable.

<u>Concerning fundraising</u>: Board engagement should preferably be as volunteers, not managers or arrogating that part of the revenue process from management. Help the organization raise funds as volunteers working under the leadership in charge of fundraising.

<u>Concerning investment committees:</u> The board should have appropriate, stipulated expectations (policies) concerning the investment of organizational funds (and monitor the investments against those expectations). But, again, managing those funds is not governance. It is management. Therefore, management is responsible for compliance concerning investments (or the board delegates investment management to an entity that manages in a way that complies with board policies, and the board checks for compliance regularly—but this organizational approach adds complexity for the board). If there is expertise on the board, invite that individual onto the investment committee but realize that individual carries no cloak of board authority with him or her, only his expertise. Management should be able, as well, to invite that person off the committee without rancor or consequences.

<u>Participating in strategic planning:</u> See above comments under 1.) above.

<u>Involvement in the budget:</u> The budget is a management instrument, but mixed within it are major policy implications important to the board as well as details that only a few people care about. This mixture of policy levels in one document creates a dilemma and confusion. Who on the board should care how many computers are going to be replaced? That is not governance, it is micromanaging. So the typical board "involvement" in the budget draws the board into micromanaging, contrary to one of our best practice values.

Nevertheless, the board *should* stipulate its expectations concerning what policy-level criteria it has for the budget and assure itself that those criteria have been met. This can be accomplished by a specific budget report to the board demonstrating that the board budget policy criteria are addressed in the budget. For example, the board would probably want the budget to be balanced, not violate prudent margins in terms of cash flow, assure sufficient asset ratios, prudent liquidity versus obligations, not be overly optimistic in terms of income, move the organization toward accomplishing the purpose of the organization, etc. Those are legitimate board-level concerns. Paper clips and office supplies are not. Just saying the board should "be involved in" or "review and approve" (and thus, own) the budget is not necessary to good governance and usually wastes the board's time, provided that the previously mentioned policies are in place and the budget is checked for compliance with those. The budget is a management tool. Nevertheless, it is extremely common to unthinkingly expect or require a board to "approve" the budget, paper clips and all. You approve it; you own the decision. This same principle applies to on-going financial activities as well—same idea and probably even more important.

Summary:

A board is nearly worthless, as a board, even possibly destructive, unless it is governing; so I check for that first. Are both core governance components present and to what degree? For example, is the organization provided both direction (strategic results to be achieved), and is it adequately protected by board policies, its risks addressed and minimized? Or are policies helter skelter?

Then, check to see how well it is abiding by vital principles and values that enhance governance. I pay close attention to the principles of 1.) Recognition of accountability (sense of its accountability to an "ownership" constituency), 2.) Delegation that is clear and achieves both empowerment and adequate risk protection, and 3.) That the board assures that its expectations are being met, including and especially, that its desired results are being achieved. As noted earlier, healthy board dynamics and a structure that does not undermine both are critical.

There are many best practices lists (and they vary by author); notice how long the values list is above! Best practices are almost always some author's favorite methods (intended to accomplish a selection of values). Attempting to consolidate board governance into simply a small number of best practices is naïve and ingenuous.

Author's Note:

This paper has not explained <u>how,</u> or what processes should be used, to achieve good governance and meet the criteria and values above. The reader is probably rightfully wondering what kind of process accomplishes all of that! We are currently aware of only one system-based, integrated set of values, principles, and processes and that permits a board to do that, Policy Governance. Others may be developed eventually. However, Policy Governance, per se, does not address structure (except where poor structure undermines coherency) nor dynamic. These need to be incorporated into a wholistic approach to a board electing to use Policy Governance principles. However, as one would expect from the discussion above, a logical rigor is a required part of the equation. It always is when sustaining a system with excellence. Many boards shy away from Policy Governance, often from ignorance or misunderstanding (and there is a lot of that!), but often just from unwillingness to step up to the diligence and rigor it requires. But, then, excellence has always required those attributes.

Richard M. Biery, The BroadBaker Group, Ltd.