

## Policy Governance® enhances board's value

By Barry Diamond, Governance Consultant

Association officers and organizational boards of directors are often volunteers who generously donate their time and effort, but seldom have management experience heading similar organizations. They can easily find themselves between a rock and a hard place.

Following Policy Governance's basic principles outlined below, boards can provide strategic direction, prevent costly problems, and refrain from micromanaging. Using Policy Governance's key concepts and examples, The Sandbar Group can steer your organization away from serious pitfalls.

### Policy Governance requires service, accountability

The central principle of Policy Governance is that boards are meant to serve the interests of other people (this is the meaning of the term "fiduciary"). The "moral owners" of an organization are the group of people the board serves. The moral owners of a school district are its citizens. The moral owners of a professional organization are its members. The moral owners of a social service agency may be the citizens or those caring deeply about addressing specific social issues. Boards must know who their owners are and discover their interests.

### Boards direct, protect moral owners

To serve the moral owners' interests, boards must accomplish two key goals. First, they must direct their organizations to achieve something of value. These **Ends policies** always describe some situation or group that will improve through the work of the organization. In the example on page three, the ends include having common-spaces landscaped.

Ends policies also define how much the desired result is worth - how much members will pay for the benefit based on the relative priority of multiple benefits. (In the example below, reducing erosion is a higher priority than beautifying the landscape, which is more important than getting neighbors to know one another.)

After the board sets these ends policies, it must also control the means to accomplish them. This is crucial to guarding the organization's assets and

### See Policy Governance in action

Before Policy Governance. Tom Leftin is creating a governance nightmare that's largely avoidable. Voted president of his neighbors' newly formed Green Meadows Neighborhood Association. Tom and the new officers guide the first 10 families of the new subdivision to identify their primary goal. The goodwill and excitement will not last long.

See "Before and after" on page 2

mitigating risk. Policies for controlling these means are **Executive Limitations**, directing management about situations or activities to avoid. (The example below directs the president to avoid deficit spending and nepotism.) Policy Governance boards proactively consider possible risks to the organization and set policies accordingly.

### Control ends, means differently

When boards direct ends, they use positive statements: accomplish ABC. But when they control means, they use negative statements: don't do XYZ. The positive statements make sense, but why is it better to prohibit means? When the board tells the executive what means to avoid, it implicitly says, "You can do anything else that is reasonable, other than XYZ." It actually gives the executive more freedom. Rather than requiring the executive to return to the board for approval, the board delegates broad authority to the executive.

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## Boards must monitor performance

In Policy Governance, every policy is monitored regularly for compliance. If the board directs the executive to landscape the common space, the board should ensure the work is completed. The executive provides monitoring reports to the board, or an outside agent like an auditor provides independent verification of the organization's work. Both ends policies *and* executive limitations policies are monitored at least annually. Thus, the board's concerns are not forgotten from year to year. The policies become a roadmap for the board to ensure a well-run organization.

## Board meetings engage members

Listening to endless reports about upcoming fundraisers or staff reports of daily activities can be boring and tedious. Board members often disengage, feeling their work is not central to the organization's success. However, when board members spend time talking to the organization's moral owners and then express the owners needs to the board, the board's

work becomes more meaningful. It's also much easier to monitor the organization's means when the board knows the problems to avoid. Rather than pouring over reams of detailed financial or program information, the board now simply checks to ensure that its concerns are being addressed. Board meetings are focused, purposeful and provide clear value to the organization.

## Systematic Policy Governance empowers

Policy Governance begins with the fundamental principle that boards exist to serve owners. Board members must remain independent of the management they oversee. This creates an important distinction between ends, (*what* the organization achieves) and means (*how* the organization achieves these ends.) By removing themselves from the business of making management decisions, board members are better able to focus on the needs of owners and monitor the management on the owners' behalf. Policy Governance boards focus less on programs and procedures and more upon service and strategy. That is where boards really add value.

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## Before, after Policy Governance *continued from page 1*

They choose landscaping the public spaces lying in-between their homes. Annual dues are set at \$50 dollars, considered an appropriate amount for communal landscaping.

Eager to begin, Tom hires his brother-in-law, Ben, who charges almost half what he would normally charge. Everyone is satisfied with Ben's work, so Tom hires Ben to also maintain the landscaping. All seems good.

Soon, 70 additional homes join the 10 original families in the subdivision, voicing their own landscaping needs. Most of these families join the association. Now, additional spaces along the subdivision's northern, eastern and western borders need landscaping, as well as the original south side communal space.

Tom's next priority is landscaping the northern communal space. Poorly graded and prone to flooding, this would protect homes from mud damage while enhancing its appearance. However, the Treasurer approaches the board, insisting that the association first landscape the western communal area abutting her property. A key volunteer treasurer, she feels influential; expects the board to comply with her request. Otherwise, she implies she'll resign as treasurer. The board relents, so Tom directs Ben to landscape the western common space.

Many association members are miffed. Some are angry the northern area was not the priority, before the upcoming rainy season's potential erosion. Others are angry that Ben's grass choice requires too much water, is inappropriate for their climate, and is unsuitable for kids play. Finally, they question if the president should hire a family member to do association work. Board members meet with Tom, who listens appreciatively, but reminds them it's the president's call.

At election time, Tom and the entire board are voted out. Ben is fired. The new board redirects the money that would have maintained the previously planted landscape to planting the northern common space. Angry southern residents, secede from the association. Lawsuits follow.

## Policy Governance improves accountability

As soon as the neighborhood exceeds the original 10 homes, residents decide to handle the board a little differently. They ask Melanie Blakely to act as the organization's volunteer president, rather than the board or president managing all the projects, she manages the association's business, while Tom is voted board chair, heading the board's management. Other than the board, volunteers take directions from the president, not the board.

The board now spends time talking to the neighbors, listening to their needs and what they're willing to spend. The board sets several priorities for the association to achieve, feeling successful if these results are accomplished

1. The Green Meadow Subdivision will be an attractive and hospitable place to live at a cost to members of \$50 a year. (The board refines what it means by "attractive and hospitable".)

A. Common spaces will be landscaped and maintained.

1) Landscaping will include grass suitable for kids' play

2) Any area susceptible to erosion and damaging homes will be the highest landscaping priority

B. A lower priority is for neighbors to get to know one another

They then instruct the president to use any means she wants to achieve the desired outcomes, excluding the following restrictions:

### Clearly outline situations to avoid

A. The organization must not go into dept.

B. The president must avoid conflicts of interest, never hiring relatives or close personal friends.

C. Association members must not be treated disrespectfully .

D. The president must not deviate from priorities established by the board.

The board will review her work according to a set schedule to assure the priorities are being accomplished and restrictions are not violated.

### Results can save time, money, emotions and lawsuits

The organization creates a neighborhood directory so neighbors can know each other. The president works with several neighbors to hire a landscaper. The landscaper identifies the northern common space as most susceptible to erosion and installs a hearty grass well-suited to local conditions. The board's bi-monthly financial review confirms the association is solvent. The president provides written assurance that the landscaper is not her family member and has no personal relationship with any of her volunteers. One volunteer is a client of the landscaper, but the president considers that a business, not a personal, relationship. To ensure that members are being treated respectfully, the board randomly contacts 10 association members to determine if the president and other volunteers treat them respectfully.

Some members complain that the completed landscaping looks too plain, needing some flowers and color. After several meetings with members, the board decides to make these changes in priorities for next year. To policy A, the board added (*in italics*): 1) Landscaping will include *a variety of colorful flowers* with well-maintained grass suitable for kids' play. 2) *Landscaping will be appropriate for local geography will require little extra water and fertilizer.*

The board also charged an additional \$5 per family to achieve the goal of more colorful landscaping. Despite some grumbling, most residents feel heard and see the benefit of their increased dues.

The next year, the board measures the success of the president (the new plants and flowers definitely improve the subdivision's appearance) and ensures that none of the restrictions have been violated. Policy Governance leads to an empowered executive, clear organizational goals, and systematic accountability.

*Policy Governance® is the registered service mark of John Carver. The authoritative Web site for the Policy Governance® model can be found at [www.CarverGovernance.com](http://www.CarverGovernance.com).*