CDS Consulting Co-op

SOLUTIONS FOR COOPERATIVES

Field Guide: Policy Governance® FAQ
by Nina Johnson and Joel Kopischke

Policy Governance® (sometimes abbreviated herein as "PG") is a comprehensive model whereby governing boards establish their values and expectations in policy, delegate implementation to the board's sole employee (typically the GM), and monitor the outcome of operational activities against the stated policies. This Field Guide assumes that the reader has familiarity with Policy Governance® (Policy Governance Source Document) and its Principles (Taking Policy Governance to Heart). Here are some questions about PG that we get asked most often:

THE MODEL

1. What other governance styles/approaches are there?
There are many ways to have a board of directors perform their duties well. PG was originally developed to integrate characteristics that are common to all boards and PG can be viewed as a system that boards of differing structures can utilize. The individual principles of PG can be applied separately as best practices, but only when all are applied cohesively is it considered to be PG. So far, we haven't found another comprehensive governance model, though there are an incredible number of resources available that describe various pieces of a board's overall duties.

2. The Carver Model is 40+ years old. How has it changed to keep up with best practices in corporate governance?
The principles of good governance have not changed and the PG model has held up well over the years. As more boards experience and work with the model, the language used has been modified to be more readily understood and some best practices have emerged and evolved, particularly in how to best craft effective Ends policies and in methods of monitoring.

3. Why does the model seem so hierarchical?
The model's hierarchy parallels the legal structure and fiduciary responsibility of the organization and its stakeholders. The member-owners (the base or "grass roots" of the organization) are at the top, with those authorized to act on their behalf (the board) below them, continuing to the GM (hired by the board) and the staff (hired by the GM). Hierarchy does not equate with oppression; good leaders ensure situations that allow those under them to thrive.

4. How can we explain to our members what Policy Governance is?
Most members are probably more interested in what the organization is accomplishing than what process or model the board is using, but PG can be explained as a system for governance in which all the most important values of the organization are written in policy, and that policy is the way the board guides the GM in running the co-op and holds the GM accountable for organizational performance. You could also explain to your members that you are governing in a way that allows the board to focus more on the long-term direction of the co-op while carefully delegating most day-to-day decisions to the GM.

5. Isn't this too dogmatic/structured? / Why is it so rigid?
All boards have a structure, though not necessarily a structure that is easy to describe; PG simply encourages us to articulate our governing structure and provides an overall framework within which to state our decisions and values. Within PG's structure there is room for great creativity. Gymnastic and figure skating routines contain portions that are compulsory and also allow for artistic freedom. Engineering principles are quite rigid and structured, yet many different bridge designs exist. Indeed, to ensure safety and functionality, it's vitally important to follow the principles. After all, if you want to get the best results from a tool, it's best to use the tool the way it was meant to be used.

6. How does Policy Governance actually control the GM?
The Executive Limitations policies within PG stipulate what situations are to be avoided while achieving the organization's desired Ends. It does not "control" the GM, but clearly specifies to what the GM will be held accountable. The Executive Limitations policies also define the limits of the GM's authority -- what decisions, actions or activities the GM does not have authority over. Any decision in these areas will need to be made by the board of directors.

7. Why isn't there a role for members?
There is! The board of directors is comprised of members, voted in by members, empowered by and accountable to members. Members can attend board meetings, the annual meetings and other events where the board and members participate in meaningful dialogue about member values. These values shape the policies that are the heart of PG. Other opportunities may exist as the board and GM are free to utilize whatever resources they see fit in accomplishing their duties.

8. Shouldn't boards actually do something? Doesn't PG create a board that is "hands off?"
Quite often a Board's desire to "do things" means that they want to be involved "hands on" in the activities of operations. This is inappropriate, as it takes the Board's energy and attention off of governance and muddies the accountability for accomplishments. Boards actually have a lot to do as they work to understand the world in which the co-op operates, engage the member-owners in a meaningful dialogue of values, and make sure that members' values are represented properly in the policies that guide the organization. Then they rigorously monitor the organizational performance against those policies.

9. Doesn't the board just end up rubber stamping?
Not at all—PG boards (or any board for that matter) should rigorously monitor GM/organizational performance. PG boards stay in the leadership position and clearly articulate expectations in their policies and then check whether they have been met. Monitoring for clear expectations will be more efficient than monitoring for vague or unstated goals. Additionally, if directors have done their homework prior to the meeting and all agree that a report shows compliance, additional discussion would most likely provide no value to the owners. The absence of extraneous discussion may be misinterpreted as rubber stamping, when it actually indicates a responsible and efficient board.

ENDS

10. What is this word "Ends" and what does it mean? Why not "mission" or ...
Carver chose "Ends" because the term wasn't being used anywhere else. He didn't want to redefine an already familiar term and risk that people would apply the old definition. "Ends" describe the end result of everything the organization does. Its meaning is defined in three distinct parts: 1) the intentional outcome/results/impact 2) for identified recipients 3) at a specified cost or value. Mission statements do not typically contain all 3 parts of Ends.

11. Why is the ends/means distinction so important?
Because Ends describe organizational accomplishments to be achieved and Means describe everything else. Unclear distinction will result in unclear goals for organizational accomplishment and diminish effective accountability systems. Additionally, Ends policies are monitored very differently than policies that articulate Means. (see our resources for [Acting on Ends Reports](#) and [Acting on GM Monitoring Reports](#))

12. Why is it such a big deal not to use verbs in the Ends statement? Wouldn't it be better to have something people can understand?
Ends statements/policies should be easy to understand. Verbs can and should be used, but they should not be verbs that describe organizational action or effort. Ends should describe the outcome or impact of the work of the organization, not the actual work or the attempt or effort. An outcome-focused Ends policy gives the GM maximum freedom and flexibility to innovate and partner and respond to changing conditions in order to achieve the desired outcome/results in the most effective way. Additionally, the GM will be held accountable for actual results, not activities or efforts. Though Ends may be used as a public statement of the co-op's purpose, they are not intended to serve as a public relations or marketing tool. Ends policies are used as the primary method for the board to communicate the members' values about outcomes to the GM.

13. How do we determine and describe the "relative worth" or "cost" part of the Ends Policy?
Most broadly, "worth" or "cost" means that results produced should be worth the effort (or resources used). Relative worth indicates that different parts of Ends policies (i.e. different "results for recipients") have different priorities; boards can either articulate these priorities in the Ends policies or choose to allow the GM to set priorities. The Ends need not address cost of goods and services because the co-op is a business operating in a marketplace and the market will determine if those costs are reasonable.

14. OK, so we have the Ends written…now what?
Once you are satisfied with your Ends policies, first you should celebrate! The GM will interpret them and develop strategic plans for achieving them and measuring progress toward accomplishment. The board will rigorously monitor the steps toward, and actual accomplishment of, these Ends. Meanwhile, the board will continue to educate itself about the members' values and other important trends and topics that may inform refinements to Ends over time. And, of course, the board will be doing its other job functions: monitoring the Limitations, working on perpetuating board excellence (recruitment, nominations, training), etc.

15. Isn't all this Ends study work just a fancy book club?
Study work is intended to develop the wisdom of the board and increase its ability to make good decisions. If a board spends time studying but does nothing with that new knowledge, then it may feel to some like nothing more than a book club. By building its knowledge and wisdom, the board becomes subject matter experts on behalf of their members. A Board should always be striving to build its wisdom so that they can write better policy and make better-informed decisions. In this way, Ends study work drives the strategic thinking of the board which then informs the strategic planning and direction of the organization. Many co-ops have achieved significant concrete accomplishments as a direct result of board-level strategic thinking and Ends study work.

IMPLEMENTATION

16. Can we just use another co-op's policy documents?
We have found it best practice to start with a sample policy set (for all policies except Ends) and review it and adapt it as needed. The [CBLD policy template](#) is based on our team's collective years of experience working with boards and their policies. When your board reviews and adapts the sample set, you make sure that your values are reflected in the policies and take ownership of those policies. The Ends are unique to your organization. There may be similarities between natural food co-ops, but it is very important for each board to articulate their member-owners' values. Each organization (through its board) will have its own unique way of answering the question of what results should be achieved for whom and at what cost or relative worth.

17. Do we have to write policy in negative language?
There are four categories of policy: Ends, Executive Limitations, Board/GM Relationship and Board Process. Of these only the Executive Limitations policies are written proscriptively, that is, in a way that prohibits certain behavior. The majority of policy is not written in negative language. PG is designed so that the board tells the GM what its desired outcomes are (Ends) and then says that the GM must not do anything illegal, unethical and imprudent on the way to achieving those Ends. Rather than telling the GM how to do their job (which makes it harder to hold them accountable), the board sets limits, gets out of the way, and monitors. It is a lot simpler to list the small number of things the GM cannot do than it is to list the gazillions of things s/he can or should do. Leaving the "what you can do" things to the GM to determine provides for maximum creativity and flexibility to create great outcomes from ever-changing conditions and ever-expanding possibilities.

FIDUCIARY RESPONSIBILITY

18. How can boards fulfill their fiduciary responsibility when they don't approve budgets, make decisions about capital expenditures, or see financial statements?
The best approach for a board on any topic, and perhaps especially financial matters, is to proactively set guidelines and monitor for compliance, not to be reactive. The board provides leadership and doesn't leave the GM to guess what is acceptable or what might be approved. Budgets are by definition plans about the future and are therefore subject to change. If the Board approves the budget, the inevitable deviations would have to be either approved by the board (highly inefficient for the organization) or allowed without approval (rendering the original approval irrelevant). Instead the board defines the guidelines for an acceptable budget; then they monitor the budget to be sure it fits the criteria that they have specified. Boards may make decisions about capital expenditures within the context of financial limitations policies; once those policies are in place, then the GM is authorized to make further decisions inside the boundaries. The board retains authority for decisions that are outside the boundaries delegated to the GM. Lastly, Boards will likely be monitoring financial policies quarterly (during an expansion phase a board may monitor more often).

19. Are boards truly prepared to be accountable for financial liability, especially when it is said to be unnecessary for anyone with financial expertise to be on the board?
While financial expertise is not required, each director should have some basic financial knowledge (easily attained/learned) so that they can participate fully in board-level financial decision-making. When monitoring financial (or any other) policies, boards should require that all reports contain operational definitions and enough outside supporting information to show that the definitions are valid. The supporting information, such as industry standards per [NCGA](#) or [CoCoFiSt](#), should provide the board with the context and outside input to make determinations on financial matters. The reports should also contain verifiable data that show whether or not the policy is in compliance.

GM ACCOUNTABILITY

20. How does a board evaluate visionary leadership in their GM? How can we tell if our GM is above-and-beyond or merely compliant?

The board should come to a clear understanding about what it means by "visionary" organizational achievements and then write that into its policies. Then rigorously monitor to ensure the GM's accomplishment of them. If the concern is compensating the GM (a separate process from evaluating), please see our resources on Setting A Process For GM Compensation.

21. What should a board do if the GM is getting results but the GM is not popular with the staff?

The manager's job is to be effective, not popular. We recommend that your policies include staff treatment guidelines to be sure that staff is treated fairly (see the CBLD Policy template and the template monitoring report in the GM Report Support section of our CBLD Library). Given human nature, it is likely that some staff may be unhappy (it is "work", after all). Good reporting will include valid staff survey results or some other type of objective data, which will show treatment and systemic staff attitude issues, if any. If all performance metrics (financial, customer service, fair staff treatment etc.) are on track it is likely that the manager is being effective.

22. How can we be sure that we are not being lied to if the GM is the source of the information? Isn't relying on the GM for data like having the fox guard the hen house?

This is not unique to PG. If the GM is a liar or a cheat, they will lie or cheat whether or not the board uses PG. PG boards can choose to hire an external/third party professional to monitor policies or do it one's self (assuming the expertise is present) but both methods are expensive in time and/or money. Good monitoring reports contain verifiable data and information (such as benchmarks or industry standards) from credible outside sources that help the board determine if the GM's interpretations of policy are valid. Verifiable data and targeted external monitoring (such as an annual Financial Review/Audit) and, to a lesser extent, direct inspection are ways to guard against liars and cheats. You can find examples of great monitoring reports in the GM Report Support section of our CBLD Library.

23. Aren't boards supposed to know what is going on in the business operations?

Boards can know what's going on in the business operations, but at a governance level the concern should be on the big picture of operations performance. A good tool is a GM-to-Board "FYI Report" that includes interesting and important things going on in operations, but which fall outside of the purview of the board. This report takes no Board time on its meeting agenda but serves to keep the board informed and connected.

SPEAKING IN ONE VOICE

24. Does this "one voice" thing mean we can't ever disagree with a decision?
Speaking with "one voice" does not mean that an individual director cannot express personal opinions to anyone he or she cares to; it does mean that directors should understand that only the full board (and not individual directors) has authority and the board's "voice" is expressed through the written policies. There should be healthy debate, even passionate disagreement, as part of the decision-making process. If your board uses majority rule for its decision making process and there are enough votes to pass, then the board has spoken and a 5-4 decision is the same as a 9-0 vote. Board members can disagree with a decision, but board members have committed to support ALL board decisions that have been made in accordance with their board process policies. In short, if you followed a valid and fair process, then the decision of the board is valid and should be honored by all directors.

Policy Governance® is the registered service mark of John Carver.
The authoritative website for the Policy Governance model can be found at www.CarverGovernance.com