Taking Policy Governance to Heart

The practical significance of the 10 principles of Policy Governance

BY MARK GOEHRING

A great cooperative thinker, Sid Pobihushchy, wrote an article in 2002 to help us understand the 10 cooperative values, "The Cooperative Values: Their meaning and practical significance" (find it at www.cdsconsulting.coop/cbld). In his opening paragraph, he asserted that the cooperative movement and its businesses are the only way to accomplish the objective of community, the optimum condition for human fulfillment; that cooperative education is required; and that the 10 cooperative values provide the foundation for that education. While there are many ways for us to discuss aspects of cooperatives, the values provide the foundation.

Similarly, the 10 principles of Policy Governance* provide a foundation to understand the governance operating system used by many cooperatives (and other types of organizations). Governance education is required to realize effective governance in much the same way that cooperative education is necessary to realize functional cooperatives. To learn and understand the Policy Governance system, the place to start is the fundamental principles that define the system.

In his article, Pobihushchy offered a nifty framing so that his definitions would convey enough of the meaning of each of the 10 cooperative values to serve as a starting point for further thought and deliberation. Here, I too ask that you accept this article as a starting point.

1. Ends policies

Cooperatives are clearly mission-driven organizations. Cooperatives exist to create a difference in the world, to provide a benefit and value on behalf of member owners. Ends describe this, in three parts:

Desired outcomes. What difference are we expecting as a result of our co-ops? The preamble that I've found to be useful to get me into "outcome thinking" mode is:

> *As a result of all we do, all the programs and activities of everyone involved in our co-op, we will have _____ (fill in your expectation for desired outcomes).*

Recipients of the desired outcomes. Thinking about the intended desired outcomes, who is it that we name as the beneficiaries of those outcomes?

Relative cost. There are various approaches to understanding this aspect of an Ends policy. My favorite: Is the outcome that we're creating worth all the effort and resources it takes to deliver it? While I believe this is a critical governance question that may, in time, help us make a strong case for the cooperative advantage, I haven't seen it play out yet in a meaningful way. (To read a great "at what cost" report, read the book, *The Three Trillion Dollar War: The true cost of the Iraq conflict*, by Stigiltz and Bilmes.)

2. Ownership

The organization exists because we have owners, and it exists to create a benefit and value on behalf of owners. Owners authorize the board to act on its behalf, and when we consider the flow of empowerment and accountability through the organization, it starts and ends with our member owners.

When giving the introduction to Policy Governance in our Cooperative Board Leadership 101 "foundations class" for newly elected directors, I've found it useful to point out that our owners don't always agree about everything (smile), which is at least one good reason for the board to fully assume its leadership position as authorized by a diverse group of member/owners.

This principle coupled with the Ends principle show the strong synergy between Policy Governance and cooperatives: We know we have owners; we know our cooperatives are purpose-driven.

3. Board process policies

These policies describe the expectations the board has for itself and its work—the agreements the board has made about how it intends to perform its role. Here's the global policy from our sample set:

> *Acting on behalf of our owners, the board ensures that our cooperative produces benefit and value, while avoiding unacceptable actions and situations.*

It's typical to include subpolicies (see principle 8 "Policies come in sizes"). Here are the types of policies included in our sample set: governing style, the board's job, agenda planning, board meetings, officers' roles, directors' code of conduct, board committee principles and governance investment.

Governance principles summarized

Following are the 10 Policy Governance principles organized to reflect their functions:

Four types of policies:
- Ends
- Board process
- Board/general manager (or equivalent) relationship
- Executive limitations

Fundamental to having policies:
- Policy and decisions come in sizes
- Any reasonable interpretation
- Monitoring

Fundamental to the organization:
- Ownership

Fundamental to delegation, empowerment, and accountability:
- The governance position

Fundamental to successful group dynamics and board authority:
- Board holism

Note: The article discusses these items in a slightly different order.

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Note: the cooperative board leadership development team of the CDS Consulting Co-op has recently revised its set of policy samples. It was a major revision and, in our view, transformational. We encourage you to give them consideration. (www.cdsconsulting.coop/cbld)

4. Board holism

The board runs such a good process that each director fully supports board decisions even when a director doesn't agree with the decision. This is a powerful concept, a high bar for being in touch with group dynamics and the board's authority. This expectation is typically embedded in the director code of conduct policy, but my sense is that accomplishment of the expectation comes from a mature understanding of board policies and its process for deliberation and decision-making. Board holism does not mean that all directors are supposed to think the same; it does mean that all directors are expected to support all board decisions.

5. Board/general manager (or equivalent) relationship policies

These policies describe the relationship between the board and its delegate, the general manager (or equivalent). The concept of "sole point of delegation" is in play here and is described in these policies.

Here's the global policy from our sample set:

> *The board's sole official connection to the operations of the cooperative will be through the general manager.*

Again, it's typical to include subpolicies. Here are the ones included in our sample set: unity of control, accountability of the general manager, delegation to the general manager and monitoring general manager performance.

6. The governance position

This principle represents the line that is drawn whenever delegation occurs. If the board says, "We authorize _____ to do this work," then the person named has the responsibility for this work and no one else.

Here is a personal example I give in class where the relationship was blurred: When I was a child, my mom told me to clean my room and then cleaned my room for me. True, my room was always clean, but whose job was ■>

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it? From my view at the time, it was easy for me to say that it was my mom's!

The board, being near the top of the accountability chain, gets to determine the governance position line in its policies. Once that's done, be clear in honoring the authority, delegation, and accountability reflected in the policies.

7. Executive limitation policies

In its Ends policies, the board described its expectations for organizational accomplishment. Limitation policies limit the authority of the general manager (or equivalent) as it goes about accomplishing the Ends. Don't confuse limitation policies with organizational accomplishment; limitation policies are not intended to explain why the co-op exists or how great it is!

Here's the global policy from our sample set:

> *The general manager shall not cause or allow any practice, activity, decision, or organizational circumstance that is unlawful, imprudent, or in violation of commonly accepted business and professional ethics and practices, or in violation of the Cooperative Principles.*

Again, it is typical to include subpolicies. Here are the ones included in our sample set: financial conditions and activities, business planning and financial budgeting, asset protection, membership equity and benefits, treatment of consumers, staff treatment and compensation, communication and support to the board, board logistical support, and emergency general manager succession.

The board is accountable for ALL the countless actions, decisions and organizational circumstances of the cooperative. This principle provides a powerful method for the board to provide values-based boundaries and limits of authority to the general manager.

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Do not think of limitation policies as a way to tell the general manager what to do, just using negative language. Rather, think of them as saying, in advance, what's not OK. "It's not OK if _____."

In a recent session, a director offered up this example of use of limitation policies: Just tell the child, "It's not OK to throw the blocks." It's easier and more effective than providing directives if the goal is for the child to have fun with the blocks.

We are quite pleased with our new sample limitation policies and encourage boards using or considering using Policy Governance to check them out.

8. Board decisions (policies) come in sizes

The board's decisions, written down as policies, are organized using a "broad to specific" concept. This principle is often illustrated using a nested bowls concept: largest bowl controls all the bowls nested inside that bowl. The "global" policy for each type of policy is the broadest expectation.

The starting point for understanding the board's expectations, leadership, and control is always the global policy in one of the four policy areas of Ends, board process, board/general manager relationship, and executive limitations. An easy way to practice this is by asking: What have we already said about this?Then go to the global policy, and step down to the specific policy under consideration.

How does a board know when to stop writing policies (that it has been specific enough)? The answer to this comes when coupling the "broad to specific" concept to the "any reasonable interpretation" principle, below.

9. Any reasonable interpretation

The board agrees that it is willing to accept any reasonable interpretation of its policies.

As a result, those granted authority by board policy (the general manager and board chair, for example) may assume their responsibilities knowing that all related actions, decisions, and circumstances will be judged based on reasonableness.

In the abstract, "reasonable interpretation" may seem vague. Here are the two ways it typically comes into play for the board:

Policy setting: When a board is stepping down from the broadest policy level to a more specific one, with each step it asks, "Are we willing to accept any reasonable interpretation of this expectation?" Taking this process seriously will result in the board having only the policies it really needs to do its job. (Note: using the "broad to specific" concept is critically important to realizing this objective.)

Monitoring: When a board is judging a monitoring report supplied by the general manager (Ends and limitation policies) or from the board chair or a board member (board process and board/general manager relationship), acceptance begins with the question: "Are we able to accept the ■>

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interpretation(s) of policy as being reasonable?" Thane Joyal's article on "reasonable" did a great job framing the notion (*Cooperative Grocer*, Sept.–Oct. 2008). As Joyal also points out, honoring this principle is consistent with how Kathryn Sedo describes what's necessary for directors to fulfill their legal duties in her article, "Legal Duties and Responsibilities of Board Members" (*Cooperative Grocer*, April–May 1986).

10. Monitoring

If a board goes to the trouble of having expectations and writing them down (a good idea!), it must also follow through and check to see if its expectations are being met. The monitoring principle closes the accountability loop by requiring a response that demonstrates that the expectations expressed in the policies have been met or honored.

Typically this is done via a monitoring schedule, so that all parties know when monitoring reports are presented to the board. All four types of policies should be checked: Ends and Limitation policies are presented to the board by the general manager; board process and board/general manager relationship policies are presented by either the board chair or another director assigned the task.

In an earlier article, "Entering the Accountability Zone," I describe the task of considering a monitoring report presented by the general manager (*Cooperative Grocer*, March–April 2006).

These 10 principles work in concert to provide a complete operating system for effective governance. Sid Pobihushchy's paper guides us to deepen our understanding of cooperative values to expand what's possible in the cooperative movement. Aspiring to that model, I encourage directors to deepen their understanding of these principles of Policy Governance to advance what is possible through effective governance of our cooperatives. ■

FURTHER READING

- The International Policy Governance Association maintains a **Policy Governance Source Document**, which you can find here: www.policygovernanceassociation.org/PG-SOURCE-DOC.doc
- **Boards That Make a Difference: A New Design for Leadership in Nonprofit and Public Organizations** by John Carver (Jossey-Bass, 1990; 2nd edition, 1997; 3rd edition, 2006). From www.carvergovernance.com. This book is the "flagship" explanation of the Policy Governance model as it relates to nonprofit and governmental boards. It is the single most inclusive text on the model.

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