Carver's Policy Governance® Model in Nonprofit Organizations

by John Carver and Miriam Carver

[This article was originally published as "Le modèle Policy Governance et les organismes sans but lucratif" in the Canadian journal *Gouvernance - revue internationale*, Vol. 2, nos. 1, Winter 2001, pp. 30-48. Republication here is by permission of the original publisher.]

Over the last decade or two, there has been increasing interest in the composition, conduct, and decision-making of nonprofit governing boards. The board-staff relationship has been at the center of the discussion, but trustee characteristics, board role in planning and evaluation, committee involvement, fiduciary responsibility, legal liability, and other topics have received their share of attention. Nonprofit boards are not alone, for spirited debate about the nature of business boards has been growing as well. Whatever the reasons for this intense interest in governance, the Policy Governance model for board leadership, created by the senior author, is frequently a primary focus of debate.

The Nature of Governance and the Need for Theory

The Policy Governance model is, at the same time, the most well-known modern theory of governance worldwide and in many cases the least understood. It applies to governing boards of all types—nonprofit, governmental, and business—and in all settings, for it is assembled from universal principles of governance. In this article, we will focus exclusively on its use in nonprofit boards, though many descriptions of its application in business (for example, Carver, 2000a, 2000c) and government (for example, Carver, 1996a, 1997d, 2000b, 2001; Carver and Oliver, 2002) are available elsewhere.

Governing boards have been known in one form or another for centuries. Yet throughout those many years there has been a baffling failure to develop a coherent or universally applicable understanding of just what a board is for. While comparatively little thought has been given to developing *governance* theory and models, we have seen *management* of nonprofit organizations transform itself over and over again. Managers have moved through PERT, CPM, MBO, TQM, and many more approaches in a continual effort to improve effectiveness. Embarrassingly, however, boards do largely what they have always done.

We do not intend to demean the intent, energy, and commitment of board members. There are today many large and well known organizations that exist only because a dedicated group of activists served as both board and staff when the organization was a "kitchen table" enterprise. Board members are usually intelligent and experienced persons as individuals. Yet boards, as groups, are mediocre. "Effective governance by a board of trustees is a relatively rare and unnatural act . . . . trustees are often little more than high-powered, well-intentioned people engaged in low-level activities" (Chait, Holland, and Taylor, 1996, p. 1). "There is one thing all boards have in common . . . . They do not function" (Drucker, 1974, p. 628). "Ninety-five percent (of boards) are not fully doing what they are legally, morally, and ethically supposed to do" (Geneen, 1984, p.28). "Boards have been largely irrelevant throughout most of the twentieth century" (Gillies, 1992, p. 3). Boards tend to be, in fact, incompetent groups of competent individuals.

An extraterrestrial observer of board behavior could be forgiven for concluding that boards exist for several questionable reasons. They seem to exist to help the staff, to lend their prestige to someone or some population, at least in this moral sense.

The Policy Governance model conceives of the governing board as being the on-site voice of that ownership. Just as the corporate board exists to speak for the shareholders, the nonprofit board exists to represent and to speak for the interests of the owners.

A board that is committed to representing the interests of the owners will not allow itself to make decisions based on the best interests of those who are not the owners. Hence, boards with a sense of their legitimate ownership relationship can no longer act as if their job is to represent staff, or other agencies, or even today's consumers (we will use that word to describe clients, students, patients, or any group to be impacted). It possible that these groups are not part of the ownership at all, but if they are, it is very likely they constitute only a small percentage of the total ownership.

We are not saying that current consumers are unimportant, nor that staff are unimportant. They are critically important, just as suppliers, customers, and personnel are for a business. It is simply that those roles do not qualify them as owners. They are due their appropriate treatment. To help in their service to the ownership, Policy Governance boards must learn to distinguish between owners and customers, for the interests of each are different. It is on behalf of owners that the board chooses what groups will be the customers of the future. The responsible board does not make that choice on behalf of staff, today's customers, or even its own special interests.

Who are the owners of a nonprofit organization? For a membership organization, its members are the owners. For an advocacy organization, persons of similar political, religious, or philosophical conviction are the owners. There are many variations. But for purposes of this paper, we will assume a community organization, such as a hospital, mental health or family service agency, for which we can confidently say that the community as a whole is the legitimate ownership. In this case, it is clear that in a community organization, the board must be in a position to understand the various views held in the community about the purpose of the organization. In short, if the community owns the organization, what does the community want the organization for?

Traditionally, boards have developed their relationships largely inside the organization—that is, with staff. Policy Governance demands that boards' primary relationships be outside the organization—that is, with owners. This parallels the concept of servant leadership developed by Greenleaf (1977, 1991), in that the board is first servant, before it is leader. It must lead the organization subject to its discoveries about and judgments of the values of the ownership.

We have thus far referred repeatedly to the board and very little to board members; that is intentional. Since we are now establishing the starting point for governance thinking, it is important that we start with the body charged with authority and accountability—the board as a group, not individual board members. It is the board as a body that speaks for the ownership, not each board member except as he or she contributes to the final board product. So while we might derive roles and responsibilities for individual board members, we must derive them from the roles and responsibilities of the board as a group, not the other way around. Hence, board practices must recognize that it is the board, not board members, who have authority.

The board speaks authoritatively when it passes an official motion at a properly constituted meeting. Statements by board members have no authority. In other words, the board speaks with one voice or not at all. The "one voice" principle makes it possible to know what the board has said, and what it has not said. This is important when the board gives instructions to one or more subordinates. "One voice" does not require unanimous votes. But it does require all board members, even those who lost the vote, to respect the decision that was made. Board decisions can be changed by the board, but never by board members.

The Necessity for Systematic Delegation

On behalf of the ownership, the board has total authority over the organization and total accountability for the organization. But the board is almost always forced to rely on others to carry out the work, that is, to exercise most of the authority and to fulfill most of the accountability. This dependence on others requires the board to give careful attention to the principles of sound budgets and program designs. When the board has approved a staff recommendation, doesn't the resulting approved document become a clear board instruction? Actually, it does not. For example, when a board approves the CEO's personnel policies or budget, does it really mean as an instruction every tiny segment of that document? Does every budget line and the smallest issues of a program plan become a criterion on which the CEO will be judged? Certainly not. Even the most micromanaging board does not go that far. But to what level of detail should the CEO treat the approved document as being a board instruction, therefore a criterion for evaluation? The tradition-blessed habit of board approvals is a poor substitute for setting criteria, then checking that they have been met. Board approvals are not proper governance, but commonplace examples of boards not doing their jobs.

What about the clear assignment of expectations to a person or persons? In conventional practice, boards' delegation to a CEO is frequently compromised by delegating the same responsibilities more than once or by delegating to around the CEO to sub-CEO staff. An example of the former is when a board charges the CEO and a board finance committee for financial decisions. Delegating around the CEO occurs either when a board gives instructions to the financial officer or other person who reports to the CEO or when a board itself judges the performance of sub-CEO staff.

Finally, in the absence of clear instructions or clear assignment, evaluating performance is an exercise in futility. Yet boards receive volumes of information that purports to monitor organizational performance. The sheer amount of information masks the fact that proper monitoring is still not occurring. Because monitoring performance is the systematic disclosure of whether board expectations have been met, monitoring that is fair and incisive can only occur after clearly stated and clearly assigned board expectations.

Using the Ends/Means Distinction

The point was made earlier in this paper that the board is accountable that the organization works. Clearly, the word "works" must be defined; defining it establishes the board's expectations for the organizations, the performance that will constitute success. The board need not control everything, but it must control the definition of success. It is possible to control too much, just as it is possible to control too little. It is possible to think you are in control when you are not. The zeal of a conscientious board can lead to micromanagement. The confidence of a trusting board can lead to rubber stamping. Defining success is a matter of controlling for success, not for everything. How can a board control all it must, rather than all it can?

Boards have had a very hard time knowing what to control and how to control it. Policy Governance provides a key conceptual distinction that enables the board to resolve this quandary. The task is to demand organizational achievement in a way that empowers the staff, leaving to their creativity and innovation as much latitude as possible. This is a question of what and how to control, but it is equally a question of how much authority can be safely given away. We argue that the best guide for the board is to give away as much as possible, short of jeopardizing its own accountability for the total.

What is there to control? In any organization, there are uncountable numbers of issues, practices, and circumstances being decided daily by someone. The Policy Governance model posits that all of these decisions can be classified as those that define organizational purpose, and those that don't. But the model calls for a very narrow and careful definition of purpose: it consists of what (1) results for which (2) recipients at what (3) worth.

Let us define these more fully: Some decisions directly describe the intended consumer results of the organization, for example, reading skills, family harmony, knowledge, or shelter from the elements. Some decisions directly describe the intended recipients of such results, such as adolescents, persons with severe burns, or low income families. Some describe the worth of the intended results, such as in dollar cost or priority against other results.

In Policy Governance, this triad of decisions is called "ends." Ends are always about the changes for persons to be made outside the organization, along with their cost or priority. Ends never describe the organization itself or its activities. For example, the professional and technical activities in which documents thus produced "Executive Limitations policies."

At this point in our argument, we have used the ends/means concept to introduce new categories of board policies. These categories of board policies are exhaustive, that is, no other board documents are needed to govern except bylaws. (Articles of incorporation or letters patent are required to establish the nonprofit as a legal entity, but these are documents of the government, not the board.) We will not discuss bylaws here, except to say they are necessary to place real human beings (board members) into a hollow legal concept (the corporate "artificial person") (Carver, 1995). However, so that we might continue to discuss the concepts represented by the words "ends" and "means," yet distinguish the titles of policy categories, we will capitalize Ends, Executive Limitations, Governance Process, and Board-Staff Linkage.

The negative policies about operational means requires further discussion. Here is the logic: If the board has established Ends and has determined through monitoring that those Ends are actually accomplished, it can be argued that the staff means must have worked. In other words, the means by which Ends were accomplished, though interesting, is of little importance to the board. This logic is largely accurate, but there is an important problem with it. Some means can be unacceptable even if they do work. Means that are effective, but still "unacceptable" are ones that are improper treatment of people or assets, that is, means that are imprudent or unethical. Consequently, although there is no reason for a board to control staff means decisions for reasons of effectiveness, there is reason to control staff means for reasons of prudence and ethics.

Whoever is directly responsible for producing ends must decide which means to use. That is, one must be prescriptive about one's own means. But the board is not charged with producing ends, only with defining them. It is to the board's advantage to allow the staff maximum range of decision-making about means, for skill to do so is exactly why staff were employed. If the board determines the means of its staff, it can no longer hold the staff fully accountable for whether ends are achieved, it will not take advantage of the range of staff skills, and it will make its own job more difficult. Happily, it is not necessary for the board to tell the staff what means to use. In Policy Governance the board tells the staff or—more accurately—the CEO what means not to use!

Therefore, it is the board's job to examine its values to determine those means which it does not want in its organization, then to name them. The board can then tell its CEO that as long as the Ends are accomplished and the unacceptable means do not occur, the CEO can make all further decisions in the organization that he or she deems wise. It is in this way that extensive, albeit explicitly circumscribed, authority is granted to the CEO. Effectiveness demands a strong CEO; prudence and accountability to the board demand that the CEO's power be bounded.

This unique delegation technique has a number of advantages. First, it recognizes that board interference in operational means makes ends harder and more expensive to produce. Therefore, delegation which minimizes such interference is in the board's interest. Second, it accords to the CEO as much authority as the board can responsibly grant. Therefore, there is maximum empowerment inside the organization to harness for ends achievement. Third, it gives room for managerial flexibility, creativity and timeliness. Therefore, the organization can be agile, able to respond quickly to emergent opportunities or threats. Fourth, it dispels the assumption that the board knows better than the staff what means to use. Therefore, the board does not have to choose between overwork and being amateurs supervising professionals. Fifth, in this system all means that are not prohibited are, in effect, pre-approved. Therefore, the board is relieved from meticulous and repetitive approval of staff plans. Sixth, and perhaps most importantly, by staying out of means decisions, except to prohibit unacceptable means, the board retains its ability to hold the CEO accountable for the decisions that take place in the system.

Thus, when we say a board is responsible that its organization works, we simply mean that the organization (1) accomplishes the intended results for the intended people at the intended cost or priority—expressed in the board's Ends policies; and that it (2) avoids unacceptable methods, conduct, activities, and circumstances—unacceptable means expressed in the board's Executive Limitations policies.

Expressing Expectations in Nested Sets

A given board might go into less or more detail than in this example. But in any case, these principles stay intact: The language moves from a broad level toward a lesser level (we showed two levels in the example just given). The values that become policy are generated by the board's deliberations, not approved from a staff recommendation. The board, not the staff, decides what to say and where to stop. No matter where the board stops, the CEO is granted authority to use any reasonable interpretation of the board's words. The board can shrink, expand, or change the content of the policy at any time, as long as it does not judge performance retroactively.

This view of organizational issues—as values that can be specified moving methodically from the broadest to more narrow levels—allows the board to manage the amount delegated. The board is always clear about the authority being given away. The recipient of the board's delegation is always clear about the amount of accountability expected in return. There is a continuum of sizes of issues upon which, in Policy Governance, the board owns the broadest level, then successively smaller levels until it decides to delegate, after which it is safe to allow the remaining decisions to be made by others.

It is often observed by other governance authors that the distinction between what is board work and what is executive work is a naïve distinction. There is no universal rule, they contend, to mark where board policy stops and administration begins. Indeed, they are right as far as traditional governance is concerned, for the conventional approach to the board job is unable to make a policy-administration distinction that holds up in the real world. Policy Governance, however, introduces entirely different, more powerful conceptual tools— rigorous "one voice" clarity of delegation using descending levels of board control within the ends/means context. Even though there is still no predetermined or fixed point where board work automatically becomes executive work, each board using the principles we are describing can establish and, when necessary change, a distinct point of delegation applicable to its own organization. It is at that point, by the values of *that board*, for *that organization*, for *that time*, that governance stops and "sub-governance" begins.

To summarize the policy development sequence, Policy Governance boards develop policies which describe their values about Ends, Executive Limitations, Governance Process, and Board-Staff Linkage. Each policy type is developed from the broadest, most inclusive level to more defined levels, continuing into more detail until the board reaches the point at which it can accept any reasonable interpretation of its words from its delegatee. A step-by-step guide to such development of policy documents is available (Carver and Carver, 1997). Ends and Executive Limitations are delegated to the CEO, who is held accountable by the board for accomplishing any reasonable interpretation of the boards expectations in these areas. Governance Process and Board-Staff Linkage policies are delegated to the board Chair, who is given the authority to ensure that the board governs in accordance with its own expectations of itself, using any reasonable interpretation of the policy language.

Board Discipline, Mechanics, and Structure

It is clear that the Policy Governance model requires a board to govern in an organized, planned and highly disciplined manner. Boards which are accustomed to talking about issues simply because they interest individual board members will find agenda discipline to be a major challenge, as will boards that rely on their staffs to supply their agendas. Not everything is appropriate for board discussion just because it is interesting or even because the staff wants the board to make the decision. Matters that have been delegated to the CEO should not be decided by the board or by board committees, for in making such decisions, the board renders itself unable to hold the CEO accountable.

Policy Governance boards know that their job must result in the production of three deliverables. (1) The first deliverable is a systematic linkage between the organization and the ownership. This is not public relations. The board connects with the ownership in order to ascertain the range of ownership values about the purpose of the organization. If the board is to make Ends decisions on behalf of the owners, it must know what the owners in all their diversity think. (2) The second deliverable is written governing policies in the four areas, using the principles we have described. (3) The third deliverable is the assurance of organizational performance, that is, performance which can be shown to be a reasonable interpretation of the board's Ends and Executive Limitations policies.

intended practice can have the same deleterious effect as direct instruction by individuals or committees. It is common for the board, board committees, or individual board members to give advice to staff. But advice, if it is really advice, can be rejected. If staff has any doubt that advice given by the board or one of its components cannot safely be turned down, the clarity of board-to-staff delegation will be undermined. Policy Governance boards refrain from giving advice or allowing their members to give advice unless advice is requested. This protects the board's ability to hold the CEO accountable for his or her own decisions. The CEO and any of the staff can request advice if they need it, and they can request it from wherever they wish.

Traditional boards frequently create committees to assist or advise the CEO or staff, such as committees on personnel, finance, program, property maintenance, and other such staff means issues. In Policy Governance, such committees are illegitimate. They constitute interference in the CEO's sphere of authority and accountability, and damage the board's ability to hold the CEO accountable.

If, for example, the staff wishes to have an advisory committee, it is perfectly free to create one, then to use the advice or not as it deems wise. If, however, the board controls the mechanism of advice, a very different relationship between advisors and advisees is established. The wisest route is for the board to govern and leave advice and advisory mechanisms to the staff's own initiative. This way the staff gets all the advice it needs, role clarity and accountability are maintained, and board members are frequently spared unnecessary work.

Policy Governance boards use committees only to help the board to do its own job. Hence, a committee which explores methods of ownership consultation about Ends options is legitimate, as is a committee that studies possible sources of fiscal jeopardy that the board might address in an Executive Limitations policy. But a human resources committee that advises on or intervenes in personnel issus is not. To request advice or assistance with one's own job is acceptable and does not compromise accountability, but to foist help or advice on subordinates is not only unnecessary but destructive of accountability as well.

Policy Governance takes seriously the normally rhetorical assertion that boards be visionary and provide long term leadership. The discipline required for this challenge cannot be overstated. In fact, Policy Governance has been criticized as a "heroic board" model that is romantically idealistic! Yet boards do, in fact, have a critical job to do; no amount of helping staff can substitute for getting its own job done. Boards must persevere with the arduous, complex task of describing purpose and ethics/prudence boundaries. Forming those values into clear policies is far harder than telling the staff how to do its job. Speaking proactively for the ownership requires strong commitment not to take reactive refuge in rituals, reports, and approvals.

This requires board member expertise relevant to governance, not management. Board members should no longer be recruited based on their having skills that mirror the skills of staff. Governance excellence requires members who can think conceptually and with a long term perspective, able to welcome a diversity of opinions but abide by group decisions. They must be able to speak on behalf of the ownership rather than merely from their own or some splinter group perspective. They must place organizational accountability above personal gratification. They must be able to view the board's task of assuring performance at arm's length—through setting expectations (using the ends/means principle and values viewed as descending "bowls"), delegating pointedly (to a CEO if possible), and monitoring. And it is to the function of monitoring or evaluation that we turn now.

Evaluation

Evaluation of performance is not extraneous to the board's job. It is as integral to the board's job as it is to any manager's. But, as we have shown, proper evaluation is impossible unless the board has first stated its expectations and assigned them to a specific delegatee. That is, evaluation of staff performance cannot occur appropriately unless the board has done its job first.

Moreover, if the board has a CEO, the results of proper evaluation of organizational success is the only fair evaluation of CEO performance. Since the CEO's job is to see to it that the organization meets the board's expectations, there is nothing more and nothing less to evaluate when assessing fiscal year to date except through acceptable debt and (2) indebt the organization in an amount greater than can be repaid by certain, otherwise unencumbered revenues within 60 days, but in no event more than $200,000. Here is what the monitoring data might look like for these two provisions: Item 1: Through the end of May, $3,694,800 has been expended. Receipts in the same period were $3,654,728. The shortfall of $40,072 was offset by a $60,000 short term loan. Item 2: Total debt is a 45 day working capital loan for $60,000 incurred on May 25. Revenues of $75,000 from our foundation grant, guaranteed by letter of May 5, are not otherwise encumbered and will be used, in part, to retire the debt prior to due date.

Notice that the data are rather bare-bones, only enough to answer the question, unobscured by incidental information. Board members should adopt a "prove it to me" attitude, so if the information submitted is insufficient to convince them, then more detail can be added. But the detail must be such that directly address the criteria. For example, what data prove the "not otherwise encumbered" statement? Obviously, the complexities of some organizations will cause the monitoring data to have more facets than in our simple example. Even then, however, the reported data should be as brief as possible and maintain a razor-sharp connection to the policy-based criteria being monitored. If more interesting, explanatory information, other than that directly addressing the criteria, is desired by the board or offered by the CEO, it should not clutter the monitoring report, but be distributed separately. Board members can know anything they wish, but they should never be in doubt about what is disclosure of performance on the board's criteria and what is not.

Using similar criterion-focused reasoning, when the board seeks to evaluate itself, it compares its actual behavior and accomplishment with the behavior and accomplishment it committed to in its Governance Process and Board-Staff Linkage policies (Carver, 1997b). Policy Governance boards tend to self evaluate on a frequent basis—we recommend every meeting—because a more sophisticated system requires continual tending.

Board Meetings

Because in Policy Governance the board is in charge of its own job, board meetings become the board's meetings rather than management's meetings for the board. Board meetings occur because of the need for board members to learn together, to contemplate and deliberate together, and to decide together. Board meetings are not for reviewing the past, being entertained by staff, helping staff do its work, or performing ritual approvals of staff plans. As a result, many board meetings may not look like traditional board meetings at all, but learning and studying sessions or joint meetings with other boards, particularly in communities where boards rarely talk with each other.

The CEO is always present, but is not the central figure. Other staff might be present when they have valuable input on matters the board is to decide. For community boards, with rare exceptions meetings would be open—not to please the law, but because a board commitment to transparency. The board is not merely a body to confirm committee decisions, but the body that makes the decisions. Board committees might be used to increase the board's understanding of factors and options, but never to assume board prerogatives or remove difficult choices from the board table. In contrast to the old bromide that "the real works takes place in committees," in Policy Governance the real work takes place in the board meeting.

Board meetings should thus be more about the long term future than the present or short term future . . . more about ends than means . . . more about a few thoroughly considered large decisions than many small ones. And by their very character, meetings should demonstrate that the board's primary relationship is with owners, not with staff.

Summary

The Policy Governance model recognizes that any governing board is obligated to fulfill a crucial link in the "chain of command" between owners—whether legal or moral in nature—and operators. The board does not exist to help staff, but to give the ownership the controlling voice. The board's owner-representative authority is best employed by operating as an undivided unit, prescribing

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E-mail: info@carvergovernance.com Updated: February 25, 2013 Webmaster: exArte Design