

Policy Governance: 'Yes, but does it work?'

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By any measure, John Carver has had a substantial impact on thinking about governance in non-profit organisations and statutory instrumentalities. Carver has authored three books, 14 monographs and over 160 separate articles, as well as producing a regular newsletter, audiotapes and a videotape, all on the subject of governance.¹ His first book, *Boards that make a difference*², was reprinted 10 times before going into its second edition. He has consulted in over 19 countries. He has trained over 150 consultants and other non-profit leaders in his advanced Academy workshop, some of the graduates of which went on to form the International Policy Governance Association. His influence is now extending to the for-profit sector, with the publication of *Corporate boards that create value*.³

His influence in Canada in particular has been profound, with one report noting that many Canadian organisations had debated whether 'to Carver, or not'.⁴ Within Australia, some of our larger non-profit organisations (for example, Community Aid Abroad/Oxfam Australia) and some peak councils (for example, ACROD) have adopted Carver's model.

However, Carver's appeal has not been universal. As Fletcher⁵ has noted:

Carver's approach has been both lauded and demonised among non-profit practitioners. He is often criticised for his my-way-is the-only-right-way attitude.

Historically, there has been scant and inadequate research on applied governance in general, and on Carver's Policy Governance in particular. This has changed in recent years with a greater number of empirical studies on governance, including on Policy Governance. This article provides an overview of the studies on the Policy Governance model, thus providing an opportunity to synthesise the findings and advance our understanding of governance.

We will first explain the basic principles and structure of Policy Governance. We will then examine why practitioners need to be aware of the

- *The Policy Governance model for non-profit organisations*
- *Does the research show if it works?*
- *Dilemmas about researching board effectiveness*

empirical research. Finally, we will report on, and critically evaluate, that research.

The Policy Governance model

Policy Governance is more than adopting a set of policies about governance; it is a specific model for governing organisations. It is essentially a sophisticated 'management by objectives' approach to governance. Carver has developed his model around three concepts: principles; key jobs of the board; and areas for policy development.

In relation to the first of these concepts, Carver proposes ten basic *principles* of governance.⁶ First, the board governs on behalf of people who are not at the board table. As trusteeship forms the foundation of governance, the board must establish, maintain, clarify and protect the relationship of trust with the legal and moral owners of the organisation. Second, the board should speak with one voice. The power of directors is not as individuals, but as members of a corporate entity. Third, board decisions should be predominantly policy decisions. It is not possible, even in very small organisations, for the board to control every interaction between the organisation and the world. Carver argues that policies give the board the best means of framing the organisation's interactions. In Carver's model, policies are written statements of the board's values and attitudes, and general in their application. Fourth, boards should formulate policies in layers, starting from broad statements and working down in logical succession. By starting broad, Carver argues there is never a policy vacuum.



Fifth, the board should define what is to be achieved and then delegate authority to enable management to act, rather than the board being reactive and rubber stamping management recommendations. Sixth, the main game is the ends to be achieved, that is, the outcomes not the process. Seventh, the board's best control over the means used by staff is to proscribe, not prescribe. Instead of stating specifically how the CEO and staff must do their jobs, the board allows discretion and flexibility. However, the board maintains prudent control of the organisation by putting certain actions off limits. Eighth, boards should explicitly design their own products and process. For example, the board might adopt an annual work program, including meeting with members, board education and monitoring of performance. Ninth, the link between the board and the chief executive officer (CEO) must be empowering and safe. It should be empowering, in that the CEO should not be subject to second-guessing about individual decisions provided his or her decisions are consistent with any reasonable interpretation of the board's policy. The link should be safe, in that the CEO's decisions and actions must be within policy. Tenth, CEO performance must be monitored rigorously, but only against policy criteria explicitly established by the board.

Under the second concept, Carver argues that every board has at least three jobs.⁷ The board must link to the legal and moral ownership of the organisation. Also, the board should produce explicit governing policies based on the values of the board. Further, the board should assure CEO performance by establishing clear expectations for performance and clear mechanisms for accountability.

Under the third concept, policies are developed in four areas.

- Ends: These are the outcomes that the organisation seeks to achieve. The board defines which needs are to be met, for whom, and at what cost.
- 'Executive limitations' or delegations: Using the 'thou shalt not' approach to delegation, the board clarifies what means are not acceptable.
- Board-CEO linkage: The board clarifies the manner in which it delegates authority to staff. It also establishes the processes for accountability of the CEO.
- Governance process: Here the board determines its philosophy, its accountability, and the specifics of its own job.

'Yes, but does it work?'

Non-profit boards and CEOs are sometimes

attracted to the Policy Governance model because of its emphasis on trusteeship, values, outcomes and role clarity. However, a critical question that is often asked is 'Yes, but does it work?'. As Policy Governance appears to be such a different way of thinking and working, boards and CEOs want to know whether the model works in a practical sense and whether adoption of the model results in improved board and organisational performance. While many have written for and against the model⁸, most of what has been written is mere opinion, or opinion based on very limited experience.

The question of whether Policy Governance 'works' should properly be answered by empirical studies, that is, research that gathers evidence from the real world in a systematic way. Hence, an understanding of the empirical research, and the strengths and weaknesses of that research, is important to practitioners.

The empirical research on the model

Four empirical studies have been published which examine, either exclusively or in part, the Policy Governance model.

The first is the 1998 study of Brudney and Murray⁹ which focuses on intentional efforts, including Policy Governance, to improve board performance. The study sought the views of 851 chief executive officers of Canadian non-profit organisations. Respondents were asked if their board had attempted to improve governance practice and, in particular, whether they had used the Carver model, the model associated with the United Way organisations in Canada¹⁰, or other formal models for improving board effectiveness. The authors found that CEOs whose boards had used any governance model were more likely to report the changes as being successful. In relation to the particular models, Brudney and Murray found that 'no one model or combination of models proved to be more significantly associated with perceived success than any other'.¹¹

The second empirical study on Policy Governance is that of Gordon published in 2000.¹² He studied assessments of board effectiveness by some 311 board members and CEOs in 32 United States' organisations: 11 organisations used Policy Governance and 21 organisations used 'traditional' practices. Overall the study concluded that Policy Governance is equally as effective as traditional governance practices. The only exception was that CEOs of Policy Governance boards believed their boards were more effective in understanding and taking into account the organisation's culture, norms and values.

Although these two studies are of interest and value, they are subject to methodological

limitations. In our view, in the case of Brudney and Murrays' study these limitations are significant and in the case of Gordon's study substantial.¹³

The third study is that by Brudney and Nobbie published in 2002.¹⁴ This is a limited study, involving 51 North American consultants/trainers who participated in Carver's Policy Governance Academy and went on to consult to non-profit organisations introducing Policy Governance. The study revealed that the majority of consultants taught the model as a conceptual whole. In the view of the respondents, implementation is more difficult in those organisations that have no hierarchy between board and staff, and in those organisations with larger boards (over 15 members). The consultants reported that board members experienced some difficulty in focusing solely on policy making. Other factors that could have a deleterious impact on implementation include the time and energy required to introduce and maintain the policy framework, turnover of board members, and the absence of a leader or facilitator. However, the consultants were of the view that Policy Governance has the potential to improve performance in all types of non-profit organisations.

However, in our view, Brudney and Nobbies' 2002 findings are more important for what they do not find than what they do. It is likely the consultants were already of the view that the model had the potential to improve board performance at the time of enrolling in Carver's Policy Governance Academy workshop, so the findings are not surprising.

The fourth study is a later study, published in 2003, by Nobbie and Brudney.¹⁵ This study significantly advances our understanding of the effectiveness of Policy Governance. This research is sophisticated in design, and overcomes many of the limitations of previous studies. In this study, the authors made comparisons between three different groups. First, information was collected from the board chairs, board members and CEOs (243 returned questionnaires) of 32 organisations using the Policy Governance model. Second, data was collected from the CEOs of a control group of 309 randomly selected non-profit organisations. Third, data was also collected from a control group of CEOs of 26 organisations whose boards had participated in development and training activities of the US National Center for Nonprofit Boards (NCNB, now known as Boardsource). NCNB used more orthodox approaches to the development of board effectiveness¹⁶, rather than Policy Governance.

Nobbie and Brudney found that, for Policy Governance adopters:

- board chairs, board members and CEOs reported significant improvement in their perception of board performance after adopting Policy Governance

- the greater the implementation of Policy Governance measures, the greater the perception of improved performance among board chairs, board members and CEOs
- the longer the time using Policy Governance, the greater the perception of improved performance on the part of board members
- the greater the implementation of Policy Governance measures, the greater was board member perception of the organisation's ability to achieve its goals (however, this perception was not shared by board chairs and CEOs)
- the greater the implementation of Policy Governance measures, the greater the improvement in internal processes as perceived by CEOs (for example, effective division of roles, adequacy of information) and
- the greater the implementation of Policy Governance measures, the greater was CEO job satisfaction.

No statistically significant relationships were found between the extent of implementation of Policy Governance measures and:

- changes in financial performance (as measured by the ratio of revenue to expenditure)
- CEO perception of the ability of the organisation to acquire resources and
- the board chair's assessment of the performance of the CEO.

Particularly noteworthy are the results in relation to comparative organisational effectiveness. Policy Governance adopters enjoyed advantages over organisations that had not adopted either the Carver model or NCNB approach in two areas: perception of organisational goal achievement and CEO job satisfaction. However, no advantages were demonstrated for Policy Governance adopters over the NCNB adopters.

Although sophisticated in its design, there are some limitations to this study. The study included only a few objective measures. Also, it would have been useful to gather data from board chairs and board members of the two control groups (not just CEOs), to enable comparisons across all three groups.

Dilemmas about researching board effectiveness

This discussion highlights the general dilemmas of current research into board effectiveness. All of the studies on the links between board effectiveness and organisational effectiveness are about co-relationship (A and B occur together), not causation (A causes B).¹⁷

Also, there is a problematic conceptual argument: should board performance be judged on

the basis of organisational performance? Some argue that board impact on organisational performance is the ultimate test.¹⁸ Others argue that organisational performance should be judged principally on the basis of what the owners of the organisation want.¹⁹

In spite of the recent advances in understanding, there are still gaps in the research. For example, Policy Governance, because of the way in which it is designed, arguably might result in improved relationships between boards and 'owners' of the organisation, better knowledge of owner needs and wants, clearer lines of delegation, and a more consistent approach to accountability, than other approaches to improving the work of boards. These propositions remain to be tested. Of particular interest would be the incidence of serious malfeasance, and whether boards using Policy Governance are better able to avoid such wrongdoing in their organisations and the resulting scandal.

Conclusion

We would conclude that Policy Governance does appear to work, but on the current evidence it cannot be shown to be more effective than other approaches to board improvement, or at least not in all areas. What seems to be important is that boards make some attempt to improve their performance and do so using one of the main approaches to improved governance (which might be Policy Governance, the United Ways approach or the NCNB approach).

Stripped of the jargon, and of some of its sharper edges, Policy Governance merely suggests: a board should define what outcomes the organisation seeks; the board should have a formal system of delegation; the board should ensure accountability; and the board should specify its philosophy and approach to governing. These suggestions appear reasonable, and it is difficult to find a basis on which to object to them. Perhaps what is required is combining these fundamental elements of Policy Governance with the best of other approaches to improved governance.

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Notes

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- 8 These arguments are summarised in Hough, A, *The Policy Governance Model: A Critical Examination*, Working Papers on the Centre for Philanthropy and Nonprofit Studies, Queensland University of Technology, 2002
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- 10 For the United Ways' approach, see <www.boarddevelopment.org>
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- 13 Brudney and Murray's study relied on self-reported use of Policy Governance, which can be different from actual use. In Gordon's study, there was a definitional problem regarding the 'traditional' board group, together with great variation in the response rate between the two groups of boards. See Hough, A, *The Policy Governance Model: A Critical Examination*, pp 9–11
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- 16 See for example Hughes, SR, Berit M, Lakey, and Bobwick, MJ, *The Board Building Cycle: Nine Steps to Finding, Recruiting, and Engaging Nonprofit Board Members*, Washington National Center for Nonprofit Boards, 2000
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