

The Best of Policy Governance

EMBARKING ON AN EXCITING JOURNEY

By Robert C. Johnson, Board Chairman, Decatur Foundry Inc.

In a “first” for Governing Excellence, we are setting out to track the progress of a corporate board that is just embarking upon Policy Governance. Here, Robert C. Johnson, Board Chairman of Decatur Foundry, Inc. (DFI), having consulted his fellow board members, talks about where his board is today. In a year, we shall return to find out how they have been doing.

Decatur Foundry in Decatur, Illinois has been providing quality gray and ductile iron castings and metal casting solutions since 1947. DFI grew out of the firm foundation established J. L. Johnson & Sons, which started in 1936.

The early boards did not work from a manual yet they still provided guidance to the President through the years to insure success and growth. Many hardships were overcome. Profits were made. Buildings were built and shareholders were well-informed.

Although we have been evolving from a family-run firm into a professionally managed company, we are still a relatively small family-owned operation, which makes it hard for us to distinguish the work of our board from everything else. As a result, we have suffered from board-management confusion and a lack of clearly defined roles and expectations.

We have been drawn to Policy Governance because we want to be more effective with our approach towards management. We want to be better organized, and to develop long-term direction and a competitive edge. We recognize that we need appropriate structures and processes for developing a



clear strategic direction for DFI. We see Policy Governance as an effective model for board growth, development, and improvement.

We have begun by redefining our roles and responsibilities using model policies from the book, *Corporate Boards That Create Value*. We have adopted a board job description focusing us on creating the link between DFI and its shareholders, written governing policies and the assurance of CEO performance and the 10 Policy Governance principles from the Policy Governance Source Document at www.policygovernanceassociation.org/PG-SOURCE-DOC.doc Every board member has a copy of the Carver book *Corporate Boards That Create Value* and the board chairman attended the IPGA Conference in June 2005.

It has been a challenge getting people on board: directors, management, and shareholders. Our family shareholders generally do not see the relevance of the board so we have had to work hard at communicating the importance of the board’s role in aligning the expectations of second and third generation shareholders to create the company’s strategic direction.

Indeed, many family-owned businesses struggle to survive generation to generation, with 30% surviving the second generation, 12% surviving the third generation, and only 3% surviving the fourth generation.

(Joseph Astrachan, Ph.D., Editor, *Family Business Review*, www.ffi.org)

We have hammered out our initial policy set together — board and management. But as the board has built its expectations in Ends, so we have also begun to limit our opinions and actions on the means that management should use to achieve the Ends. I believe it is very important to understand and live the limits of board involvement. It has been hard to find time to develop and monitor our policies but we are on our way.

The communication problem with shareholders would have been lessened if Policy Governance didn’t seem so intimidating (theoretically and conceptually) and was more explainable in down-to-earth terms. A basic “jump start” approach would be good to have with an outline and inventory of questions for a board to understand where it has downfalls and weaknesses in the governance process. Case studies of corporations showing the value that they have gained by adopting Policy Governance would also have helped a lot.

Our link with ownership has not been strong enough in the past. Shareholders were getting nothing but the numbers and were completely uninformed of governance progress and key issues of strategy, integrity, and risks. Since adopting Policy Governance, we have made a concerted effort to keep shareholders informed of our progress and strategic direction using a quarterly newsletter.

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The company also holds an annual shareholders' meeting in April to summarize the past year, discuss the independent audit, and give board and CEO reports including goals for the coming year. In the past, shareholders have been able to attend board meetings and this is an issue that the board needs a policy. There is a danger that shareholders' attendance could drag us back into management issues unless we are successful in convincing our owners of the importance and value of Policy Governance and its impact on DFI today and down the road.

At first there was some resistance from within the company — too much extra paperwork with no apparent results. Now we seem to have reluctant acceptance. The Ends need to cascade down the organization, and we are not sure about the level to which this has happened so far. We do know that our CEO now has a well-defined direction removing the previous vague ideas about the board's expectations.

I believe that increased expectations and accountability within Executive Limitations

is the key to reducing corporate scandal. The board must assume the leadership responsibility in this area and be proactive in developing preventative policies and detecting problems through monitoring. Policy Governance creates a culture that focuses on the future and anticipates potential risks that can be analyzed in a proactive way as opposed to a reactionary way.

We are currently developing an ethics policy for our organization. In fact, we need to incorporate sound business ethics and integrity practices in all policies reflecting the commitment of everyone in the organization to be socially responsible in the work place and in our community.

To increase take-up of Policy Governance in the corporate sector, I think we will need successful examples of companies that have benefited from it with specific examples of improvement and progress. Consultants trained in a "board turnaround" approach could make an analysis of a corporate board and lead them through the basic changes to get them on track. The key is to be able to

quantify and measure the value the board brings to the corporation. It seems that the value Policy Governance brings to the corporation often falls between the lines of the financial statement. We need to develop measures of that value that shareholders will understand and support.

The top three benefits we are hoping for from our use of Policy Governance are:

1. Continuity of direction for the company regardless of future changes in directors and management.
2. Organization, focus, and prioritization of issues that create a strong strategic direction for DFI.
3. Effective governance practices that increase shareholder value.

We look forward to updating *Governance Excellence* readers a year from now and will return to Decatur Foundry in March 2007.

Meanwhile, you can find out more about the company at www.decaturfoundry.com

The Board Connection

SERVANT-LEADERSHIP CAN TRANSFORM SOCIETY

Jannice Moore, IPGA Chair, on behalf of the IPGA Board



Responsible Governance: The Power of Accountable Boards. It's the theme of our June conference. I wonder whether we realize how powerful that theme is?

The concept of servant-leadership (at its most basic level, the idea that one provides leadership in order to serve and be accountable, rather than in order to exercise power) is explicit in Policy Governance® principles. Robert Greenleaf wrote that "No one step will more quickly raise the quality of the total society than a radical reconstruction of trustee bodies so that they are predominantly manned by able dedicated servant-leaders." Raise the quality of total society! It's a rather large vision! To achieve it, servant-leaders need a method, a system.

The IPGA board — and I hope you the reader — knows from experience that the operating system that most effectively enables boards to act in that servant-leadership role, and to be truly accountable, is

Policy Governance®. It follows that the operating system for boards with the greatest potential to raise the quality of total society is Policy Governance®.

This theme takes us back to the roots of IPGA — it is entirely consistent with the vision that led to the formation of IPGA. As still maintained in IPGA's Governance Process policies, this vision is "owner-accountable productive organizations" characterized by: governance that subscribes consistently to high standards of excellence as described in Policy Governance®, owners who value boards as democratic servant-leaders that articulate values and provide accountability, societal systems that support good governance, and the efficient and effective achievement of intended organizational results. Raise the quality of total society indeed!

The IPGA board has identified our ownership as "everyone who is committed to the integrity of Policy Governance implementation." We are continuing to seek input from

our owners on a range of issues. As a member of IPGA, you have been provided the opportunity to respond to a number of online questions. If you have not yet taken advantage of that opportunity, please do so by going to www.regonline.com/89165. If you are reading this newsletter but are not a member of IPGA, we welcome your input as well — our ownership is "everyone committed . . ." not just "members." The board itself has undertaken to personally contact a range of non-members who are either board members or CEOs of organizations currently using Policy Governance® to obtain their responses to the same questions.

At this point, we are continuing our examination of where research should fit in our priorities, and whether or not ethical consulting standards should be pursued. We need your input, and look forward to hearing from you.

We hope to see you in June in San Antonio.

You can contact Jan at jmoore@policygovernanceassociation.org

And Another Thing...

BOARD MEMBERS' ROLE IS TO SERVE

Caroline Oliver, General Editor



I have been thinking a lot recently about the way we use the word “role.” We talk so much about “the role of the board” and “the role of board members” but, speaking for myself, and I suspect many others, I am usually not investing the word “role” with any other meaning than “something one does.” Yet, “role” has a much more precise meaning and it’s perfect for board work. Let me explain.

The dictionary tells us that “role” derives from the old French word “rolle,” literally the roll of paper on which an actor’s part is written which has now come to mean a “part or character one takes.” Here’s the big thing – being on a board means playing a “role” – in other words, being on a board is not about “being ourselves.” In fact, in Policy Governance terms, it is about “being the long-term best interests of the owners.”

Are we up to “transcending ourselves” as in the title of John Carver’s keynote address to the 2004 IPGA Conference in Chicago? Can we let our egos go sufficiently to find our self-expression in playing the role of owner-representative with all our hearts and minds?

Telling prospective board members that their potential appointment is nothing to do with them as an individual but everything to do with their ability to play a part, may risk losing them, but it may be exactly what we need to do.

You can contact Caroline at coliver@policygovernanceassociation.org

Submissions Welcome

To submit an item for *Governing Excellence*, please contact Caroline Oliver, General Editor, at: coliver@policygovernanceassociation.org

Hot Tip!

THOUGHTFUL QUOTES TO ILLUMINATE PG

A couple of quotes that might help you when talking about Policy Governance:

“The distinction between direction and management is crucial. Direction is the task of the board and management is the task of the executives. Unless that division of duties is clearly drawn and clearly understood by everyone concerned, there will be confusion over where the power of decision lies and over who is accountable for decisions.”

“The line between direction and management within a company will change through time and will vary between companies; what matters is that, at any given time, there should be no doubt about where it lies. The most comprehensive and logical definition of the difference between direction and management is to be found in the works of Dr. John Carver.”

From *Corporate Governance and Chairmanship—A Personal View* by Sir Adrian Cadbury, OUP, 2002, p 36.

Sir Adrian Cadbury retired as Chairman of Cadbury Schweppes in 1989. He was

Director of the Bank of England 1970-1994 and Chairman of the UK Committee on the Financial Aspects of Corporate Governance which published its Report and Code of Best Practice (“Cadbury Report and Code”) in December 1992.

“Probably the single best manual for directorial functioning in an Anglo-American context is the work of John Carver...”

From a review by Robert A. G. Monks of a chapter on ‘The Real Challenges of Good Corporate Governance’ by IPGA member Tan Lye Huat in *From Conformance to Performance, Best Corporate Practices for Asian Companies*, Editor Mak Yuen Teen, Singapore, McGraw Hill, July 2005.

Robert A. G. Monks is the world’s most prominent shareholder activist. He is founder and Principal of LENS Inc., an investment fund which uses shareholder participation to turn around poorly performing companies. He has served on the board of a dozen publicly held companies, and was head of The Boston Trust.

About IPGA

Launched in June 2001, the International Policy Governance Association (IPGA) is a not-for-profit corporation with 501-c(3) status committed to owner-accountable, effective governance.

It pays to join IPGA

In addition to being part of a growing, thriving community dedicated to owner-accountable, effective governance, IPGA members receive the following benefits:

- Save 10% on IPGA’s annual conference registration fees
- Full Members save 10% on seminars and courses offered by Carver Governance Design, Inc.
- Receive a 40% discount on a subscription to Board Leadership
- Save 10% on designated On Target Governance events
- Members have access to a “Members Only” section of the IPGA website at www.policygovernanceassociation.org

Welcome to IPGA!

New members since December 2005

- Michael Beck, HBC Contracting, Lansing, Michigan
- Babara Boyer, American Council of the Blind of Colorado, Denver, Colorado
- Jean Freeman, Jean Freeman and Associates, Fairfax, Virginia
- Beth Geisel, Manitoba Teachers Disability Benefits Plan, Dauphin, Manitoba
- Jonathon Graves, Jonathon Graves Management, Visalia, California
- Kathi Gudmandson, Red River College, Winnipeg, Manitoba
- Reg Jones, Confederation College, Thunder Bay, Ontario
- Margaret Keip, Unitarian Universalist Association, Grants Pass, Oregon
- Yvonne Vinkemulder, VISTA, Penney Farms, Florida
- Steve Winninger, State Employees Credit Union, Lansing, Michigan

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Visit the IPGA website and join online at www.policygovernanceassociation.org

Policy Governance Seen and Heard

Events

During the first week in February, John Carver met with the faculty of the Corporate Governance Center of the Higher School of Economics in Moscow and then with the economics faculty of the Yaroslavl State University, Yaroslavl. The topic on each occasion was Policy Governance as it applies in the emerging corporate governance sector in the Russian Federation.

Conference Papers

Governance Theory and Governance Codes by John Carver. Paper included in the VI International Conference “Innovative Economic Development: Theory and Practice.” Yaroslavl State University, Russian Federation Ministry of Science and Education. Yaroslavl, Russia, November 1-2, 2005.

Books

Governing Excellence is delighted to draw your attention to the just published third edition of *Boards That Make a Difference* by John Carver and the second edition of *Reinventing Your Board* by John Carver and Miriam Carver, both released by Jossey-Bass in February 2006.

The design of both is much enhanced and the Carvers note that *Boards That Make A Difference* is “noticeably more extensive due to the addition

of illustrative diagrams, a new chapter on ‘But Does It Work’ that includes a summary of the principles, a section on criticisms, and one on research, and many references to the publications on Policy Governance that have come out by Academy graduates as well as us over the years. *Reinventing Your Board* has increased coverage of monitoring and updated policy samples.”

Articles

Board Leadership: Policy Governance in Action Volume 2006, Issue 83, Jan/Feb 2006 features the following articles:

Executive Limitations Policies: Two Errors to Avoid by Miriam Carver

On a Personal Note — Governance doesn’t exist for board members’ satisfaction by John Carver

Governance as Leadership? by Caroline Oliver

FAQ — What authority does a board committee have over the staff member assigned for its support? by John Carver

FAQ — Should senior staff be present at board meetings? by John Carver

A letter to the editor of the UK’s *Health Services Journal* by Caroline Oliver on future UK National Health Service regulation was published on February 2, 2006.

Research

Improving Community College Board Governance Using a Technology Based Board Management System by Teresa Walsh, Regis University. A Master’s Thesis studying the impact of the Policy Governance implementation software, OurBoardroom™, on the governance of Yavapai College in Arizona. Available from Teresa Walsh at tewalsh@cableone.net or the IPGA website member’s forum or rtooley@ourboardroom.net

Webchat

Susan Mogensen and Caroline Oliver have recently been contributing to the extremely active Association for Research on Nonprofit Organizations and Voluntary Action (ARNOVA). The listserv is at www.arnova.org/listserv.php. If you have an interest in governance research please join in.

Coming soon

IPGA’s 2006 annual conference “Responsible Governance: The Power of Accountable Boards” at the Marriott Riverwalk in San Antonio, Texas, June 1-3, 2006.

See also “Look Who’s Talking” at www.policygovernanceassociation.org

Call for Articles

The Journal for Nonprofit Management is an annual publication for those concerned with developing excellence in nonprofit management and leadership.

The Journal welcomes applied research, research-based and innovative practices, case studies, and book reviews of interest to nonprofit executive directors, board members, and consultants.

The theme for this year’s Tenth Annual Edition of the Journal is Community Change.

Topics of interest include facilitating large-scale changes in organizations and their communities, strategies for culture change, building partner-

ships to effect community change, strategic restructuring, utilizing membership organizations to affect public policy, and building community based organization networks

Deadline for submissions is June 30, 2006. Articles should be no more than 4,500 words and must use inclusive language.

Permission for the use of quoted material is the legal responsibility of the author. Authors are also responsible for the accurately verified documentation of all references used to support their manuscripts.

Manuscripts should be submitted in an electronic form. Authors may send a disk or send

the manuscript by e-mail to the editor. The Journal does not pay for the use of articles.

The Journal appears only in an electronic format. Last year’s issue can be viewed at www.supportctr.org/articlesandpublications.php

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And I Quote...



“It is not enough to be busy; so are the ants. the question is: What are we busy about?”

— Henry David Thoreau (U.S. writer, 1817-1862)

