

Fall 2002

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Association**

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Look out for our Winter Issue December 1, 2002

Governing Excellence

The Voice of the International Policy Governance Association

News Headlines

Corporate Book Now Out!

The book that launches Policy Governance into the corporate sector, is now out. You can get your copy for US\$ 27.95, C\$41.95, £20.95 or €32.90 from major bookstores or online from Jossey Bass, Amazon and others.

Press releases, review copies, and a letter from Peter Wiley, Chairman of publisher John Wiley & Sons Inc., are being widely distributed. See page 8 for more publicity news.

Corporate Boards That Create Value - Governing Company Performance from the Boardroom, by John Carver with Caroline Oliver, published by Jossey Bass - A Wiley Company, August 2002.

Making Connections

John Carver is leading the final discussion at the Canadian Institute of Corporate Directors' **Innovations in Corporate Governance** Conference (October 9 – 11, Langdon Hall, Cambridge, Ontario) with Roger L. Martin, Dean of the Rotman School of Management at the the University of Toronto.

A RARE MOMENT

"It is very rare that the wind blows behind reform. We must not waste the current favorable conditions."

ROBERT A. G. MONKS in an email to John Carver and others, June 13, 2002

In April, John met with the Rt Hon Lord Newton of Braintree, Director of Professional Standards at the UK's Institute of Directors.

In June, John was the featured speaker at the Atlanta Chapter National Association of Corporate Director's luncheon. His opening line:"The most striking thing about corporate governance is that we can say it with a straight face".

In May, John took up his position as Adjunct Professor at the Schulich School of Business, York University. He has already been engaged in two events both related to the Canada-Russia Corporate Director program. He also continues as Adjunct Professor at the University of Georgia.

Newsletter Well Received

"Bravo! The newsletter looks GREAT! I'm planning to send it on to my clients as an inducement to join IPGA! It looks very professional and spiffy. Thank you. WOW!" Jan Moore

"That is terrific! I am most impressed.....by format, by content, by zest! Congratulations!!!" John Carver

"I just wanted to congratulate you on the fabulous job you did with the latest IPGA newsletter. ... a terrific boon to our organisation" Susan Rogers



And Another Thing From the General Editor

I have a “bee in my bonnet”. That is, I have a persistent thought buzzing about in my often rather muddy brain.

The thought is that, when it comes to Policy Governance the most important issue we need to address right now is communication. How are we communicating Policy Governance to board members and to the world? I believe we can

do it better, much better, but we need to help each other. Our CEO’s article “Why?” on page 7 raises some important questions that I am sure will throw up some productive future directions.

We need to work at generating and sharing tools such as analogies (see page 4) and hot tips (see page 5) and we need constantly to develop our ability to stand in other

people’s shoes.

Whether or not Policy Governance takes the world by storm is ultimately our call. I say that we are up to the responsibility and have the talent in our ranks to become the clearest and most exciting communicators on governance yet known. Let’s create some **Buzzzzzzzzzzzz!**

The Strange World of Auditors

All readers of Governance Excellence will be familiar with the importance of ‘owners’ in the Policy Governance lexicon.

Recent events have put a major spotlight on the role of auditors and maybe we need to consider that role from a Policy Governance ‘ownership’ perspective.

Auditors are appointed by the whole legal ownership. This is normally, but not always, a wider group than the board. The auditors also *report* to the owners as a whole.

However Robert A. G. Monks, prolific author on corporate governance and founder of Institutional Investment Services, is right to point out that owner-decisionmaking in the context of the usual style of annual general meetings amounts to no more than “coerced ratification”.

For it is the board that decides which auditors to recommend, the board that determines their scope of work and the board that signs the cheque. All that the owners as a whole typically see is an already seconded motion to reappoint last year’s auditors.

And what about the role of the audit committee? In the non-profit sector, boards appoint audit committees mainly to save the full board time and effort. They also ensure that the committee has a greater weight of financial expertise.

The full board’s lack of expertise in relevant financial matters is therefore compounded and their ultimate responsibility undermined.

In the corporate sector things get even stranger.

For example, the Toronto Stock Exchange’s Corporate Governance Guidelines require that (unlike in the full board) **all** Audit Committee members should be “financially literate” and **all** should be “unrelated” to management.

Can the integrity of a part ever compensate for a lack of integrity in the whole? What use is having an independent and expert sub-committee if the board which appoints it and to which it is accountable is financially ignorant and living out of management’s pocket?

The auditing profession has been under significant attack for lack of integrity recently. Maybe its time they started questioning the integrity of the accountability structure in which they are forced to do their work. *Ed.*

“Can the integrity of a part ever compensate for a lack of integrity in the whole?”

WHAT DID YOU SAY? Report from the IPGA Education Survey

We asked, you responded and the initial results are in. Overall, 15 responses were received, 12 from IPGA members and 3 from non-IPGA members who are Academy graduates.

14 of you said that you would attend an educational event as a consultant, with 7 saying that the audience should be a mix of consultants and users and 7 saying that it should be only consultants. Advocates for mixing users and consultants reflected the needs and desires to learn from the other. Most who were against a combined audience were concerned that the depth of discussion on issues of importance to each group would be diminished. A separate users conference was also suggested.

Your input reflected your individual experiences with Policy Governance®. However, when viewing all of your responses together, similarities and patterns emerged. You provided valuable insights, not only into the content of future educational events, but also into new areas for IPGA attention (see 'From the CEO' on page 8).

So, what did you say about the content of future educational events? Indirectly you affirmed your commitment that "Boards have the knowledge, skills and understanding to implement and sustain Policy Governance" (an IPGA End). Directly, you said that you want to enhance your ability to work with boards, providing them with an understanding and knowledge of Policy Governance, so that they can use it effectively and with ease.

As you might expect, Ends, monitoring and owner linkage were the major topics mentioned. You wish to become more skilled in developing Ends, including "sub-Ends," and in having monitoring, especially of Ends and Executive Limitation policies, be more meaningful, rigorous and effective. You want to gain ideas that will help you help boards effectively connect with their owners and translate owner input into policy. Some of you want to be skilled in working with corporate boards, learning how they differ from non-profits and what it will take to have corporate boards operate successfully with Policy Governance over time.

"you want to become more skilled and successful in working with boards throughout all phases of achieving sustainability"

You also said you want to become more skilled and successful in working with boards throughout all phases of achieving sustainability. This includes the initial introduction to Policy Governance, the transition period following implementation, the phase for building the skills needed to continually operate successfully under Policy Governance, and having in place all the additional elements (like new board member orientations, etc.) that are needed to achieve sustainability.

You want to enhance your facilitation skills and ability to work with boards of different types and personalities as well as boards who are self-taught and now seek outside assistance. You believe that learning from the experiences of those who have achieved success in many of these areas is important. You also want events to provide a mix of knowledgeable presenters and ample opportunities to have meaningful dialogue and exchanges of ideas with your colleagues.

Most of you prefer 2 day sessions, and everyone sees 3 days as the maximum length. Some prefer the length of the sessions to include time for travel on at least one end of the session, reducing actual education time to 1 ½- 2 ½ days. Many of you said you come to these events to work and do not consider entertainment or down time during the event to be a priority.

Your preferred location often depends on where you live although a few are willing to go anywhere central. Some suggested a retreat setting with little outside distractions, while others wanted a larger city location. A key factor in everyone's input was that the event is easy to get to and that the accommodations are not expensive. A common theme is "everyone's time is valuable and costly when not at work, so make the overall content worth the time and money". Times of year to hold the sessions varied considerably, with many voting for late fall/early winter, summer and spring.

Your input will be instrumental in creating future educational events. For those who did not respond and wish to, or have additional comments to make or you don't see your input in this summary please email me. Your voice is important and IPGA's ear is always open. Thank you for your input! Thank you for your commitment to *High Quality Policy Governance Implementation*.

Howard Stier

Analogies That Communicate – The Crow's Nest

Alisdair Smith, Human Resources Consultant at Credit Union Central of British Columbia, has an analogy for the board's role that he finds works well for the traditional boards that he works with. It makes even more sense to those that practice Policy Governance.

Credit unions, co-operative financial institutions, have been managing people's wealth for the last 100 years or so. Their governance system consists of a board elected by the membership, which hires a professional General Manager and the sector is thriving if judged by its growth. In British Columbia for example, one in three British Columbian's are members of credit unions, and in a number of municipalities, credit unions are the only financial institutions.

However as is very common in traditional board-management relationships, the line between the board's role and the General Manager's role is not always clear and there are times when one or the other feels that the line has been crossed.

I have found it very useful to use a metaphor to explain the importance of the board maintaining its focus on strategy and management maintaining its focus on the tactical.

Consider a ship, an old style sailing vessel. The Captain, (the General Manager) needs to take position on the bridge. The board though needs to be atop the mainmast in the crow's nest, looking out across the horizon, in all directions, letting the captain know what they see in front and on the sides, and reminding the captain of where they've been. If the board is spending time on the bridge, trying to steer or worse in the galley, below

decks, and the ship hits an iceberg or goes aground, who's responsibility is that?! Boards need to be in the crow's nest, and trust that they have a professional captain on the bridge and a great crew in the galley.

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Editorial Note:

Policy Governance boards distinguish between their role and that of the CEO/General Manager in their policies. But if they ignore their own policies, fail to monitor them, or restrict the CEO's room for movement too severely, they will quickly find themselves operating 'below decks'.

HOT TIP!!



*From
Randee Loucks
Trustee Development Manager, Southern Ontario Library Service (SOLS)*

Get a Handle on Your Administrative-Legal Check

One of the final steps in preparation for implementing Policy Governance is the Administrative-Legal check. Often, this can be a daunting task.

Laurey Gillies, our CEO at SOLS is a super-organized woman with a knack for quickly getting a handle on just about everything. She developed a tool for checking through worry areas and existing by-laws and policies to ensure the new Policy Governance system covers everything it needs to. Starting to draft Policy Governance policies by looking at previous policies is not recommended but it makes a lot of sense for a board to check back, once its new Policy Governance policies have been drafted, to make sure it hasn't neglected something important.

Laurey created a simple chart with 4 columns.

- **Column 1** lists the issues raised in the course of the Administrative-Legal check. These could include:
 - an outstanding concern brought up by a board member, the CEO or another member of staff;
 - a by-law that is/may be considered to be in conflict with the new Policy Governance policy;
 - a policy that pre-dates Policy Governance and may not be adequately covered in the new Policy Governance policy
- **Column 2** notes which Policy Governance policy category each issue falls into: Ends or Executive Limitations or Governance Process or Board-Staff Relationship
- **Column 3** gives the title of any of the existing draft Policy Governance policies that apply to each issue
- **Column 4** gives options for dealing with each issue. These could include:
 - create a new Policy Governance policy
 - add to or otherwise amend an existing draft Policy Governance policy
 - amend existing bylaws
 - refer for further legal advice
 - refer for further staff/owner/expert consultation
 - determine to be adequately covered in existing draft Policy Governance policies or bylaws

I use this tool in all my Policy Governance consulting with our public libraries.

| ADMINISTRATIVE-LEGAL CHECK | | | |
|-----------------------------------|-----------------------|------------------------------------|----------------|
| Issue | PG Policy Type | Relevant PG Policy Title(s) | Options |
| | | | |
| | | | |
| | | | |
| | | | |

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The Best of Policy Governance

BY JIM WEIGEL



Jim Weigel is President of the Board of Education of Adams 12 Five Star District - one of the largest and most awarded school districts in the state of Colorado.

The organization serves over 29,000 students who attend 44 schools, located within 62-square miles - 26 elementary schools; 7 middle schools, grades 6-8, an alternative middle school program; 4 comprehensive high schools; an alternative school, students grades 9-12; a vocational center; an adult high school diploma program; 3 charter schools, and a variety of special programs.

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Policy Governance has given our board comfort and confidence that:

- a) we are doing our job as well as possible;
- b) the district is on course for accomplishing worthwhile results;
- c) we have a good understanding of critical district affairs through monitoring;
- d) we have a process for continual improvement.

Our CEO is highly energized and motivated by the clear empowerment and direction the board has given him. Staff time spent interacting with the board has been reduced by 80% to 90%, and staff frustration and demotivation due to board or individual board member activity is almost non-existent. Our CEO has chosen to use the model for management purposes which has meant that many other staff members are more energized, but it also true that some have been uncomfortable with the clearer accountability and increased delegation.

We adopted Policy Governance by unanimous board decision in September 1999. Although we were viewed as a good board, each of the five of us had frustrations with board service, and we wanted to be better. We had read all we could, called some other school boards who had Policy Governance experience, and had Miriam Carver in to educate us and take us through a policy blitz. At the time, we believed that our understanding was very high. Looking back, although I think we did as much as was practical at the time, I realize that our understanding was extremely basic. If I could do it again, I would like us to have done more of what we are doing now—learning about monitoring, Ends and determination, and ownership linkage.

We have sustained our commitment through continual practice. We call Miriam when we have questions, and we have had one “tune up” session with her. Most board members have attended Carver seminars. Our board president, CEO and staff attorney have attended the Academy. All of this training has reinforced the principles and made us more accountable to each other.

We have faced various challenges. Securing improved understanding and commitment to Policy Governance from every board member has been a significant task. However, today I would say that 95% of the time we handle board member concerns in a model-consistent way.

Ends have certainly been a challenge. Most have accepted the mega-Ends statement without desiring more detailed prescription. This is probably because our board is comfortable with the CEO's interpretations.

The model has a slightly circular logic when it comes to monitoring (because the CEO has the right to reasonably interpret board policies, while the board has the right to determine what is reasonable). This combined with our inexperience made the first annual cycle of monitoring a demanding experience.

By helping us be a more effective board, we believe that Policy Governance is helping our school district achieve its mission. It may be taking a while for the significance of Ends to sink in, but it is forcing us to think about tangible improvements (such as test scores and college admissions), rather than the subjective educational goals we have always had in the past. Goals like success, creativity, productivity, and health, have been talked about for years but have never really been defined or acted upon.

Policy Governance is neither as easy as it looks, nor as complicated as we make it. Like all good partnerships, a large amount of commitment and work is required from all the board members and the CEO. Doesn't any kind of board work require the same to be successful?

The key tests of our commitment to Policy Governance will come whenever we experience CEO turnover (which we all hope is a long time coming), and secondarily, when one or two key supporting board members leave (which is within two years). However, by inculcating the principles of Policy Governance within our community, our employee groups, and our parent groups, and by encouraging and educating board member candidates, we hope to perpetuate the benefits of Policy Governance, and even more important, worthwhile educational results for our students.

FROM THE CEO

Howard Stier poses some challenging questions and invites you to give them a shot.

Why?

The Answers May Be The Key to Simplicity

Is Policy Governance difficult to use? **Why?**

If you said “yes”, **why** did you say that?

As people who are trained in Policy Governance, we are committed to boards being accountable for organizations producing results that reflect their owners’ desires and needs. As people committed to the success of IPGA, we assert that the world will be a better place if IPGA achieves its Ends and the number of owner accountable productive boards grows exponentially. We also believe that Policy Governance is the best tool available today for the purpose of developing such boards.

Yet, we continue to reflect the experiences of users who say that Policy Governance is difficult; who only want to implement parts of Policy Governance; and who quickly or slowly shed PG entirely and revert to old, familiar styles of decision making.

I believe that these experiences are probably the key barriers to having the growth in boards using Policy Governance that we would all like to see.

Why? Why is Policy Governance experienced as difficult?

Here is a real puzzle. Most us would say that the exquisite simplicity of Policy Governance’s design is a large part of what attracted us to it.

The very design that we also report others perceive as difficult to use?

Why?

IPGA’s education survey (*see page 3 of this newsletter*) revealed that IPGA members who train boards are urgently seeking effective ways to relate to boards who say Policy Governance is difficult for them; or to boards with board members who are not committed to take the time needed to understand and effectively use Policy Governance; or to boards who encounter some other special situation in which they find Policy Governance is difficult to apply.

Many of the survey respondents requested education and/or dialogue to address the various aspects of such difficulties. This is excellent feedback and will be addressed in planning for future educational events. But it also causes me to wonder.

“Most of us would say that the exquisite simplicity of Policy Governance’s design is a large part of what attracted us to it. The very design that we also report others perceive to be difficult to use?

Why?”

Do the difficulties really lie with ourselves as trainers or with those we train? Do the real difficulties lie in our own understanding of the model in practice, in our own ability to communicate it, or in our own ability to confidently facilitate particular kinds of groups or in particular kinds of situations?

Have we considered how we contribute to making Policy Governance appear difficult as a result of our own perceptions and difficulties? Do we believe that Policy Governance is difficult for boards to grasp? If we do, maybe we are helping to make it so

My intention is to start a conversation that will lead away from difficulty and towards simplicity. To achieve simplicity, we need to start by being very clear about precisely *what* is difficult and **why?**

Why? (as you can easily tell by now) is a question that always intrigues me. I find it provides an enormous amount when answered honestly. What do you think? Is Policy Governance really difficult to use and **why?**

What parts of it are difficult for you or your board or clients? What ideas do you have that will help us realise the simplicity that attracts us to Policy Governance in the first place? What is it really like for you and your boards or clients. Tell me what’s difficult and especially tell me **why** (or why you perceive) it is this way.

IPGA is committed that Policy Governance be widely recognized as a tool that enhances boards’ value and simplifies their job, I am committed that IPGA be the source of that simplicity and recognition. Flood my email box! I’m looking forward to your comments!!

Send your reactions to:
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We're on the Web!

See us at:

**www.
policygovernance
association.org**

GIVE IT AWAY!

Feel free to give your fellow board members or clients a copy of this newsletter. You will be helping to spread the word and encouraging more new membership growth.

Remember there are membership categories for all supporters.

PG ON THE WEB, IN THE PRESS, AND IN PRINT

Since the last newsletter -

Articles about Policy Governance have appeared in:

- *Women in Management* newsletter, a journal of the Richard Ivey School of Business at The University of Western Ontario. 'Boardroom Dysfunction and Diversity' by Caroline Oliver, Vol 12, Number 2, June/July 2002. Copies can be ordered online from www.ivey.uwo.ca

About The Association

The International Policy Governance Association was launched in June 2001 to create 'High Quality Policy Governance Implementation'. It is a 501c3 not-for-profit corporation.

- *Bottom Line*, The Independent Voice of Canada's Accounting and Financial Professionals. 'Getting Off Lightly' May 2002 and 'Is Your Boss Legit?' June 2002 by Caroline Oliver. Copies can be ordered from www.butterworths.ca.

- *The Canadian Association*, the e-newsletter of Association Xpertise Inc. 'Policy Governance in 2002 - An Interview with IPGA Chair, Caroline Oliver' May 2002 Free subscription queries to wayne@axi.ca

- *Canadian MgrSearch*, Canada's Meeting Place for Managers, Consultants and Plan Sponsors. 'Governing - An Impossible Job?' by Caroline Oliver. Can be viewed online at <http://canadianmgrsearch.com>

Interviews about Policy Governance have been given to:

- *Continental*, the in-flight magazine of Continental Airlines. John Carver was interviewed by Dayton Sandray for an article titled "Corporate Boards" in July issue.
- *The Gazette*, Colorado Springs' daily newspaper. Caroline Oliver was interviewed for an article by Chris Walsh titled 'Who's in Charge' published July 14, 2002. www.gazette.com

Research about Policy Governance has been published in:

- *Nonprofit Management & Leadership* Vol 12, Number 4, Summer 2002 'Training Policy Governance in Nonprofit Boards of Directors by Jeffrey L. Brudney and Patricia Dautel Nobbie More on this in our next issue

New Members Welcome

New members since the last newsletter published on May 31 include: Eric Craymer and Jan and Manette Maas (Netherlands) plus organizations: New York Society of Security Analysts and Keewatin Community College in Canada.

PUT YOUR OAR IN!!

Submissions for Governance Excellence are welcome and should be emailed to coliver@policygovernanceassociation.org

We do not publish REPRINTS because we want to encourage NEW writing.

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