

Policy Governance and the Role of the Board

Last update: January 2008

(Adapted by Helen Johnson from handouts by Michael Healy of Cooperative Development Services, provided to the Franklin Community Cooperative at our Board retreats on April 23, 2006, November 11-12, 2006, and April 8, 2006.)

The Board of Directors is the link between the members of the Franklin Community Cooperative (i.e. the owners of the Coop), and the General Management Team (Suzette, Patti, and John). Our job is to govern (or direct) the Coop on behalf of member-owners. This is distinct from the role of the General Management Team (GMT), which is to manage the coop based on the direction provided by the Board. The GMT, in turn, hires staff to operate the Coop.

In other words, the details of Coop operations are the responsibility of the GMT, not of the Board. Maintaining this distinction can be difficult for boards of cooperatives, perhaps more than for boards of other types of organizations. As member-owners and customers of the Coop, Board members interact frequently with the operational and management aspects of the Coop. We may have opinions about those aspects, but we have to keep in mind that this is not part of our role as Board members. Like any Coop member we can choose to express our feelings and opinions, provided that we do so *as members and customers*. When we put on our “Board hats,” we have to shift into governance mode. If we were to fail to do this and get caught up in directing Coop operations, we would disempower the Management Team and undermine their authority with staff. We would also be taking on a task that far exceeds our capacity as a group of volunteers that meets once a month.

So what does it mean to be in governance mode? It means that the Board plays a leadership role, focusing on the big picture and visions for the future rather than getting lost in the details of the present. The leadership authority of the Board is derived from its role as the representative of the member-owners, not from its relationship to management. Thus an essential part of the work of the Board is to engage the member-owners to determine their will, then express the member-owners’ will to the GMT, and later follow up to ensure the execution of that will.

Yet at the same time, the Board has fiduciary responsibility – that is, we are legally responsible for the well being of the entire organization. This creates a dilemma: how can we fulfill this responsibility without infringing unnecessarily on the creativity and prerogatives of management? Moreover, how can we exercise authority over activities we will never completely see, toward goals we cannot fully measure, through jobs and disciplines we will never master ourselves? Policy Governance is in part a tool for achieving this paradoxical task of effectively holding responsibility for the organization as a whole without micromanaging.

Under Policy Governance, the Board fulfills its responsibilities by creating policies to guide the GMT, and by monitoring the application of those policies by the GMT. There are two types of policies for this purpose. The first is Ends, which define the results that are to be achieved by the GMT, as well as the intended beneficiaries or recipients of those results, and the relative priority and/or acceptable cost for different results or recipients. Ends policies focus on

the big picture and the future of the organization. They are informed by the organizational goals, visions, and values, as expressed by the member-owners.

The second type of policy defines the operational means that are to be used by the GMT to achieve the Ends. This is where we risk getting into micromanagement – particularly because, to fulfill our fiduciary responsibilities, we need policies that address the full breadth of the organization, including customer service, member services, treatment of staff, planning, budgeting, financial condition, asset protection, and so on. To fulfill this responsibility while avoiding the micromanagement pitfall, we strive to refrain from creating policies that are directive in nature (i.e. “The GMT must do such-and-such.”). Instead, we create policies that indicate what means (actions, conditions, etc.) we would find unacceptable, even if they resulted in accomplishment of the desired Ends. These policies are called Executive Limitations because they set limits on the powers of the management. Since they are statements of what the GMT should not do, they are stated in the negative, i.e. “The GMT shall not do such and such.”

The negative wording of the Executive Limitations policies can be cumbersome at times, and may at first seem like a downer. But in fact it is far more empowering for the GMT than positive, directive statements would be because it allows the GMT complete freedom to act, within reasonable limits, rather than telling them what to do. The GMT is effectively empowered to use any means they see fit to achieve the desired Ends, provided they stay within the Executive Limitations.

The Board also creates policies to guide its own conduct (Governance Process) and its interactions with the GMT (Board-General Manager Delegation). Thus, there are four types of policies in all: two that provide direction for the GMT (Ends and Executive Limitations), and two that guide the conduct of the Board (Governance Process and Board-General Manager Delegation).

Monitoring of all types of policies is spread throughout the year. Typically we review one GMT related policy and one Board related policies at each meeting. As policies are monitored they are also evaluated for effectiveness, and changed if necessary.

Monitoring of GMT related policies – again, Executive Limitations and Ends – begins with a monitoring report that is written by the GMT. Reports are distributed to Board members in advance of the meeting at which they are to be discussed, to allow Board members time to read them. Each report includes (among other things) either evidence of compliance with the policy or acknowledgement of non-compliance (or a combination, in the case of partial compliance). Non-compliance is not seen as a failure, provided that the report also provides a reasonable explanation and a plan for achieving compliance within a reasonable timeline. At the meeting, the Board chooses one of the following actions:

- accept the report as in compliance
- accept the report with acknowledgement of non-compliance with no consequences
- accept the report with acknowledgement of non-compliance with specified consequences
- do not accept the report and apply specified consequences

The combined monitoring reports of the Ends and Executive Limitations policies form the basis for the Board's annual evaluation of the GMT. Since all policies are spelled out in advance, and since monitoring takes place throughout the year, there are no surprises for the GMT. This helps maintain a positive working relationship between the Board and the GMT.

Monitoring of Board policies – again, Governance Process and Board-General Manager Delegation – is less formal. The bulk of the process takes place at a Board meeting with a conversation about the policy and how it's being implemented. The conversation is followed then documented in the minutes and/or in a brief monitoring report written by one or more Board members.

In summary, Policy Governance is a tool that helps the Board to:

- Fulfill its fiduciary responsibilities without micromanaging;
- Maintain a clear distinction between the roles of the Board and of the GMT;
- Establish a positive, productive relationship between the Board (the employer) and the GMT (the employees) by:
 - providing clear direction to the GMT, and
 - empowering the GMT while setting reasonable limits; and
- Focus on vision and values rather than operational detail, as a result of confidence that operations are being taken care of by diligent and competent professionals.

Where We Are Now

The Board adopted Policy Governance in November 2006, and we are now completing our first monitoring cycle (one year = one cycle). We have a full set of policies, most of which have proven to be reasonably robust. The one exception is our Ends policy, which we put in place as a preliminary measure while we developed the other policies, as was advised by our Policy Governance trainer and consultant, Michael Healy. One of our major tasks for the coming year will be to enlist the support of member-owners in revising and expanding our Ends policy. A second and related task will be improving communication between the Board and member-owners. We will also be working on getting more effective and efficient at monitoring, so that we can focus more of our meeting time on the big picture, our visions for the Coop's future, and strategic planning.

Following is a list of our policies, with brief description / elaboration as needed for those that are not self-explanatory. The full text of the policies can be found in the booklet for the March 2007 Annual Meeting.

Ends

- E: Global Ends (*Our current Ends are: a healthy and vibrant local community, sustainable local food production, downtown food store(s), enhanced community dialogue, healthy people, business development beyond food.*)

Executive Limitations

- L: Global Executive Restraint (*GMT must avoid actions that are illegal, unethical, or in violation of the Cooperative Principles*)
- L-1: Customer Treatment
- L-2: Staff Treatment
- L-3: Compensation and Benefits
- L-4: Membership
- L-5: Financial Condition and Activities
- L-6: Budgeting and Financial Planning
- L-7: Asset Protection
- L-8: Communication and Counsel to the Board
- L-9: General Manager Succession
- L-10: Board Logistical Support

Governance Process

- G: Global Governance Commitment (*Board purpose is to work on behalf of member-owners to achieve appropriate results for appropriate persons at an appropriate cost, and avoid unacceptable actions and situations.*)
- G-1: Governing Style (*emphasis on future vision, initiative and strategic leadership rather than operational detail.*)
- G-2: Board Job Description (*represent member-owners, ensure appropriate performance*)
- G-3: Agenda Planning (*annual re-exploration of Ends and links with member-owners; continual Board education*)
- G-4: Code of Conduct (*conflicts of interest; prohibition on exercising individual authority; interactions with the public, the press, etc.; confidentiality; attendance at meetings*)
- G-5: Board Committees
- G-6: Governance Investment (*Board budget, uses of Board's funds*)
- G-7: President's Role
- G-8: Treasurer's Role
- G-9: Secretary's Role

Board-General Manager Delegation

- D: Global Governance-Management Connection (*the Board's sole official connection to operations is through the General Management Team.*)
- D-1: Unity of Control (*Only official decisions of the Board are binding on the GMT.*)
- D-2: Accountability of General Manager (*the Board does not interact with staff; Board considers GMT performance as identical with organizational performance, i.e. accomplishment of Ends by means that fall within Executive Limitations.*)
- D-3: Delegation to the General Manager (*the Board instructs GMT through written policies.*)
- D-4: Monitoring General Manager Performance (*GMT evaluation is based on organizational accomplishment of Ends within the boundaries of Executive Limitations.*)