

Boards That Make a Difference

A New Design for Leadership
in Nonprofit and Public
Organizations

THIRD EDITION

John Carver

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“Dr. Carver is the best-known and most highly regarded scholar and practitioner in the field of not-for-profit corporate governance and the leading exponent, throughout the world, of the value and necessity of improving the governance of these organizations. Indeed, he is the father of contemporary governance practices in the extremely large not-for-profit sector.”

—**Dr. James M. Gillies**, professor emeritus, York University Schulich School of Business, Toronto; former Member of Parliament and senior policy adviser to the Prime Minister; coauthor, *Inside the Boardroom*; author of *Boardroom Renaissance*, *Facing Reality*, and *Where Business Fails*

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—**Dr. Allan Hawke**, former Secretary of Defence, Australian Department of Defence, Canberra

“In the Company Secretary’s Office of BP, we owe a great deal of debt to Dr. Carver, and, in our opinion, his ideas on how boards should work are without equal.”

—**Rodney L. Insall**, former vice president, corporate governance,
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“John is not only refreshingly revolutionary in his thinking but he matches his bold thinking with the ability to communicate with both passion and precision. Add to these qualities his thorough professionalism and you have an individual who towers over others in the field.”

—**Jerry Cianciolo**, editor, *Contributions*

“John Carver’s *Boards That Make a Difference* was required reading for board members of the Calgary Philharmonic Society. It provided a clear and concise road map with which we carried out significant governance restructuring of the society.”

—**James M. Stanford**, past chairman, Calgary Philharmonic Society;
former president and CEO, Petro-Canada, Alberta, Canada

“John Carver, like Robert K. Greenleaf before him, is a revolutionary of the very best kind. Carver’s Policy Governance model has provided the means for trustees to live out Greenleaf’s challenge to boards to act as both servant and leader. In so doing, John has proven himself to be one of our greatest servant-leaders.”

—**Larry C. Spears**, CEO, The Greenleaf Center for Servant-Leadership;
editor, *Reflections on Leadership*, *Insights on Leadership*, *Servant Leadership*,
The Power of Servant Leadership; coeditor, *Practicing Servant Leadership* and
Focus on Leadership

“*Boards That Make a Difference* is a unique contribution to the field of governance. Its insights into the use of policy and the need to separate governance from management are carried throughout the analysis to produce a governance model that is conceptually complete and internally consistent. Dr. Carver’s ideas—his Policy Governance model—on how boards should work makes an unparalleled contribution to this essential subject.”

—**Judith C. Hanratty**, former company secretary, British Petroleum, London

“Carver’s Policy Governance model focuses our directors on developing the ends for which our organization exists, while holding the CEO accountable through written policies for their accomplishment.”

—**T. Wayne Whipple**, CFA, former executive director,
New York Society of Security Analysts, New York

“John Carver’s Policy Governance model has taught me the board is not supposed to be the better alternative to management, but has to set ends and limit means for management. Many boards do not understand their own role and try to duplicate management.”

—**Folkert Schukken**, chairman, Council on Corporate Governance and
Board Effectiveness of the Conference Board Europe, The Netherlands

Boards
That Make
a Difference

Other Carver Resources

Reinventing Your Board: A Step-by-Step Guide to Implementing Policy Governance, Revised Edition, by John Carver and Miriam Carver

John Carver on Board Leadership: Selected Writings from the Creator of the World's Most Provocative and Systematic Governance Model, by John Carver

Board Leadership: Policy Governance in Action, co-executive editors John Carver and Miriam Carver

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Preface to the Third Edition

The Policy Governance conceptual model that I created in the mid-1970s has now spread internationally, arguably becoming the approach to board leadership that is most frequently identified by name worldwide. Indeed, becoming “Carverized” is a frequently used eponym. My wife, Miriam Carver—who has joined me as the authoritative source on model theory due to her extensive knowledge of Policy Governance—and I have trained over 250 consultants and board leaders from eight countries, providing them with intensive advanced instruction in the model’s theory and practice. Some of those persons have gone on to establish the International Policy Governance Association.

Since the first edition of this book was published in 1990, at least eight other books consistent with the Policy Governance model have

WANT MORE?



been published, as well as over two hundred articles. The bimonthly newsletter *Board Leadership*, which I co-edit with Miriam Carver and which is entirely devoted to Policy Governance theory and implementation, passed its eightieth issue in mid-2005. Policy Governance materials have been published in Spanish, Portuguese, French, Russian, and Dutch. Direct personal consulting and presentations have taken Miriam and me to nineteen countries.

My interest in governance began in the mid-1970s, a story I retold in detail in the Foreword to *The Policy Governance Fieldbook* (Oliver and others, 1999). That interest, and my frustration at the

patchwork of practices that governance had become (and largely still is), impelled me toward as conceptually coherent a set of universal governance principles as I could devise. My scientific and research background undoubtedly had much to do with my pushing as far as I could toward an integrated system of thought. I was suspicious of what Thomas Kuhn (1996) called “development by accumulation” (p. 2) and was by nature in agreement with E. R. Dodds’s sentiment: “Where men can build their systems only out of used pieces the notion of progress can have no meaning—the future is devalued in advance” (Dodds, 1973, iii, 633).

Unfortunately, however, it was that same scientific mentality that led me to describe the Policy Governance system as a “model,” meaning the scientific sense of conceptual coherence rather than the more mechanical sense of organizational structure. I could as easily have spoken of a governance “technology,” “theory,” “operating system,” or “philosophy.” Inasmuch as the word *model* has led to some unnecessary resistance to my concepts it is not clear to me that I made the best choice. My search, however, was intended to uncover principles of governance that were not only universal in their application but integrated into a seamless and practical whole that would deserve to be designated a model.

Over the years, the model has been received with interest and even enthusiasm in a number of countries. Endorsements have been received from, among numerous others, Peter Dey and James Gillies



in Canada, Robert Monks and Earnest Deavenport in the United States, John Hall in Australia, and former British Petroleum company secretary Judith Hanratty. Perhaps the most pleasing endorsement was that from Sir Adrian Cadbury, who in 1990 unleashed the modern international flood of corporate governance reform. Sir Adrian (Cadbury, 2002b) said of Policy Governance, “For the first time, we are being offered a fully integrated and coherent system of governance” (p. xiii).

I published the earliest form of my theory in the late 1970s, then expanded on it with increasing frequency in the ensuing years. It was not until 1990 that the Policy Governance model found expres-

sion in book form in *Boards That Make a Difference*. Unexcelled sales for this kind of book led to a second edition in 1997. I am delighted now to present the third edition.

This edition differs more from the second edition than the second did from the first. I have added explanatory diagrams that tens of thousands of seminar participants have found useful. Policies created by real organizations that are used to illustrate my points have been updated, and more explanation on monitoring performance is given. An additional chapter on the problems and challenges of governance research has been added. Due to the mountain of Policy Governance publications since 1990, I have changed my approach to references. References clutter the text, even though they give readers further sources of information. So except for citations for quotations or other specifics, references are found in the “Further Reading” lists at the end of each chapter but are keyed to the text with “Want More?” icons inserted near the topics they augment.

I am grateful to the organizations that have allowed me to use their board policies to illustrate various points in the text, as well as to the individuals who have allowed their words to be quoted. To all the individuals and organizations who made statements and policies available that space constraints kept me from using, I am as grateful as if they had been published.

As always, I thank the countless boards, board members, executives, consultants, and other governance enthusiasts who have given my work so satisfying a reception for three decades.

Atlanta, Georgia
December 2005

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Further Reading

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Preface

This is a book about boards, particularly boards of nonprofit and public organizations. But rather than describe nonprofit and public boards, councils, and commissions as they are, *Boards That Make a Difference* prescribes how they can be.

This is a hopeful book. Boards can be the forward-thinking, value-oriented, leading bodies we claim them to be. In my consulting work with a multitude of boards and chief executives, I have found a great deal of cynicism and resignation. Knowledgeable skeptics think boards can never get beyond being spoon-fed by their executives and that, because of their nature, boards must remain fundamentally reactive. With good evidence, many people believe that boards will always stumble from rubber-stamping to meddling and back again. They believe the realities of group decision making forever destine boards to be incompetent groups of competent people. My impressions, too, are just as dismal, but I believe the cynicism is justified *only so long as boards continue to be trapped in an inadequate design of their jobs*.

Board members are as conscientious and as giving a group as one could ever hope to find. Members of volunteer boards and underpaid public boards interrupt their personal and occupational lives to support something in which they believe. There is not adequate space to give sufficient credit to the works wrought by board members in any given community in one year. The personal drive of

board members has accomplished formidable tasks. The perseverance of board members has surmounted seemingly intractable barriers. The patience of board members has outlasted drudgery. The generosity of board members has made the impossible possible.

Board members arrive at the table with dreams. They have vision and values. In many cases, their fervently held beliefs and sincere desire to make a difference impel them to board membership in the first place. Symphony board members want to improve community culture. City councilpersons want to increase the benefits of citizenship. A trade association board wants to augment business opportunities. School board members want to prepare children for life. Boards of hospitals, port authorities, social agencies, chambers of commerce, credit unions, and other organizations want to offer their constituents a better life.

Yet, by and large, board members do not spend their time exploring, debating, and defining these dreams. Instead, they expend their energy on a host of demonstrably less important, even trivial, items. Rather than having impassioned discussions about the changes they can produce in their world, board members are ordinarily found listening passively to staff reports or dealing with personnel procedures and the budget line for out-of-state travel. Committee agendas are likely to be filled with staff material masquerading as board work. Even when programs and services are on the agenda, discussion almost always focuses on activities rather than intended results. Boards are less incisive, goal directed, and farsighted than their average members.

Much as board members and executives unintentionally conspire to water down the powerful work of genuine governance, they often have a nagging awareness that something is not quite right. Usually, however, their recognition is focused on a specific aspect of board folly. It is rarely the basic design, the system of thought. Concern is often expressed as complaints about time spent on trivial items, time spent reading reams of documents, meetings that run for hours and accomplish little, committees that are window dress-

ing for what staff members want to do, meddling in administration, staff members who are more in control of board agendas than is the board, reactivity rather than proactivity, an executive committee's becoming the de facto board, confusion about what is going on, a rubber-stamping of staff recommendations, and the lack of an incisive way to evaluate the executive.

Some of the preceding complaints apply to all nonprofit and public boards. In my experience, most of what the majority of boards do either does not need to be done or is a waste of time when done by the board. Conversely, most of what boards need to do for strategic leadership is not done. This sweeping indictment is not true of all boards all the time, of course, but I contend that it is startlingly true enough of the time to signal a major dysfunction in what we accept as normal.

In these pages I argue for dissatisfaction with what we now accept as ordinary and outline a path that boards can follow to become extraordinary. The failures of governance are not a problem of people, but of *process*. The problems lie squarely in our widely accepted approach to governance, including its treatment of board job design, board-staff relationships, the chief executive role, performance monitoring, and virtually all aspects of the board-management partnership. This book is a strong indictment of what is, but it is intended to make a compelling case for what can be.

The model presented here originated in the mid-1970s. Like many managers, I had training in a professional discipline rather than in management. As a CEO, or chief executive officer, I worked for years learning how to do what I was already paid to do. Those who worked for this manager-in-training endured that travesty far beyond what I can even now appreciate. As my skills as a manager grew, I became increasingly aware of the shaky foundation upon which management rests—the determination of purpose, which is largely a product of governance. Increasingly schooled as administrators, we worked toward haphazardly established ends as if we were introducing computer guidance into a Conestoga wagon. I was driven to discover

what could bring governance into the modern age. Out of that quest, I developed an approach to governance that severely departed from much of conventional wisdom. Boards here and there wanted to hear more about it, so a consulting practice grew that subsequently made regular employment impossible.

I have worked with boards and their executives around the world, particularly in the United States and Canada. I meet with them twice in the average week. These clients have assets ranging from near zero to over \$25 billion. In the course of this work, I have written articles on governance and executive management for such organizations as the U.S. Department of Health and Human Services (Carver, 1979b), the Canadian Hospital Association (Carver, 1989a), the Association of Mental Health Administrators (Carver, 1979a, 1981b), the Human Interaction Research Institute (Carver, 1984a), the National Association of Corporate Directors (Carver, 1980a), the University of Wisconsin (Carver, 1981a), the Florida League of Cities (Carver, 1984c), the Nonprofit Management Association (Carver, 1984b), the Indiana Library Association (Carver, 1981c), the National Association of Community Leadership Organizations (Carver, 1983), the Center for Community Futures (Carver, 1986b), and others (Carver, 1988a, 1988b). My work has been featured in audiotapes for the Public Management Institute (Carver, 1985a) and Family Service America (Carver, 1985b) and in videotapes for the Georgia Power Company (Carver, 1986c), the National Recreation and Park Association (Carver, 1987), and the University of Georgia (Carver, 1989b). Quite a few other unpublished writings of mine have been circulated (Carver, 1980b, 1985c, 1986a; Carver and Clemow, 1990).

I have run hundreds of governance and chief executive workshops for communitywide groups, state and national conferences, trade associations, and political bodies. The attraction for these clients was a model or framework that enabled them to see their roles and gifts in a new light. They were not always able to implement the model in full, but they had a new standard to shoot for.

So the past couple of decades have provided me with rich relationships with members and chief executives of literally thousands of boards located in every American state and in every Canadian province. The probing and challenging of these insightful clients contributed to the widespread applicability of my governance model. The model that emerged is generic, capable of whatever tailoring is necessary to fit any type of organization. And while I do adapt the model to business board settings, particularly to parent-subsidary systems, the exclusive focus of this text is on nonprofit and public organizations. This extensive dialogue in which I forged a generic application of the model for nonprofit and public governance included a wide array of organizations.

public schools	city councils
private schools	county commissioners
liquid waste disposal	libraries
Third World development	architects' societies
YWCA	real estate boards
hospitals	sports facilities
mental health centers	industrial associations
poverty agencies	local churches
mental retardation	family services
junior league	family planning
airport authorities	adult learning
parks and recreation	credit unions
women's centers	regional planning
national church bodies	zoos
housing authorities	postrelease programs
art guilds	economic development
pest control districts	women's shelters

chambers of commerce	retirement funds
dental societies	rehabilitation centers
county fairs	national associations
community theaters	state boards of education
agriculture cooperatives	state mental health systems
wilderness programs	medical specialty societies
alcoholism treatment	planning and zoning commissions
private industry councils	health maintenance organizations
League of Women Voters	community leadership training
child protective services	golf course superintendents
health departments	employment services
Hispanic leadership	vocational centers
holding companies	extension services

I cannot begin to describe the personal and professional sustenance that these many boards and their executives continue to give me. Working routinely with organizations whose pursuits exceed my understanding and dedication is humbling even to a consultant's robust ego. Their boards have educated me about topics such as waste disposal, international relief, public housing, and the ravages of racism. Their work and their determination have awed me time and time again. Not infrequently have I been literally moved to tears by their perseverance and commitment to make a difference in the world. Their contribution to me is not only one of the mind, in helping forge an approach to governance, but one of the spirit as well.

Out of that profound appreciation and respect, my counsel to boards minces few words. I am hard on boards simply because *I know how good they can be*. Out of what is, frankly, a love affair with boards, I have written this book for board members who want to make a difference. I have written it for board leaders who wish to guide deliberation toward the big questions. I have written it for

executives who want a strong rather than a weak board, one that demands a strong executive as well. I have written it for executives who know that management can be only as good as its governing foundation. I have written it for the long-term benefit of taxpayers and donors, as well as the clients, patients, students, and other beneficiaries whose needs are to be served.

So come with me on an adventure into what strategic board leadership might be. Let us consider how a board can do in the boardroom what it sought to do in the first place: project a vision, infuse an organization with mission, bid a staff to be all it can be, and make itself grow a little in the process.

Organization of the Book

Chapter One recounts the varieties of boards, their predictable difficulties, and the need for more precise principles of governance. I seek to establish not only that individual boards need to function better, but that our idea of what “better” means is sorely in need of revision.

Chapter Two makes a case for a new approach to policymaking and what types of policies boards should make. Even though there is more to the board job than policymaking, I argue that reconceiving the nature of policy allows a new level of leadership to be born. Rather than use the traditional categories of board policies borrowed from administration, I develop four new categories tailored for the governing role.

In Chapter Three, I deal with the depth and breadth of board policy in a way that frees boards from staff details and even from the endless stream of approvals.

Chapter Four deals with policies about organizational results and initiates the next five chapters, which explain the four categories of board policy. These policies engage the board in governing outcomes rather than activities and resolve such issues as mission, priorities, and target recipient groups.

Chapter Five covers those policies that give the board control over administrative and programmatic action. These policies enable the board to fulfill its fiduciary responsibilities and to control the prudence and ethics of organizational practice without resorting to “meddling.”

Chapter Six deals with policies that establish an effective relationship between board and staff through a CEO. We explore the meaning of the CEO’s role and the board’s approach to delegating and to evaluating the performance of this important person.

Chapter Seven addresses the board’s relationship to its stockholder equivalents and its primary accountability to that trust. Policies covered in this chapter address the board’s governing process and its job description.

Chapter Eight extends the discussion of board roles to subgroups of the board. I explore ways to minimize committees and officers and ensure that they do not interfere with either CEO or whole board roles.

In Chapter Nine, I demonstrate how to make board policies “grow” by adding depth to initially very broad policy statements.

Chapter Ten focuses on keeping the board on track by building structured discipline and agendas into the long view.

Finally, in Chapter Eleven, I discuss the importance of thinking big, keeping the dream in front, and including other ingredients of strategic leadership.

I promise readers that they will never see governance in quite the same way again. In the midst of the great quality revolution in American management, I submit a new standard of what quality means in a board’s work. This book redefines excellence in governance. And because we have so far to go, it is an urgent argument for revolution in the boardroom.

Consequently, however gentle my intent, *Boards That Make a Difference* is a presumptuous book. It is presumptuous in broadly lumping together such apparently different organizations as governmental bodies, social agencies, quasi-public entities, private

clubs, and foundations. It is presumptuous in claiming that virtually all such boards, councils, and commissions, *even those that are not perceived to be in trouble*, are currently performing at a distressingly low percentage of their leadership potential. It is presumptuous in depreciating finance and personnel committees; in belittling financial reports, budget approvals, and the office of the treasurer; and in exhorting boards to get out of long-range planning. And it is presumptuous in claiming that time-honored, virtually unquestioned beliefs and practices of nonprofit and public boards are the major impediments to their being the strategic leaders they could be. “The whole industry,” to borrow from an unidentified observer from Waterman (1988, p. 9), “seems trapped in a disastrous set of habits.”

I propose a sweeping revision, a new conceptual framework, so that we can conduct ourselves with purpose and performance. This is not a book of helpful hints, nor is it written to suggest incremental improvements in current board operation. The need I see is not so much to make boards better at the work they are doing, but to reinvent that work and its fundamental precepts, to design from the ground up a general theory—or at least a technology—of governance. My commitment is that boards and managers, impelled by a new comprehension of what governance is all about, will do no less than transform how we conceive and proclaim leadership in the boardroom.

Acknowledgments

For the intellectual spark that led me to question the conventional wisdom and thereby to create a new model, I am indebted to Wolfgang S. (Bill) Price. When I discovered his work in program policy planning in 1975 (it was later published in 1977), I thought it the most refreshing approach to governance I had ever come across. Bill’s acceptance of me as co-consultant changed the direction of my career.

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John Carver

The Author

John Carver is a theorist, consultant, and arguably the world's most published author on the design of governance by boards. With extensive name recognition in the field, he is widely regarded as the world's most provocative authority on the topic. Sir Adrian Cadbury, who was instrumental in starting the current international renewal in corporate governance, recently called his work "as near a unifying theory of governance that we at present have."

A native of Chattanooga, Tennessee, John Carver served four years' active duty with the U.S. Air Force Electronic Security Command (1956–1960). He received his B.S. degree in business and economics (1964) and his M.Ed. degree in educational psychology (1965) from the University of Tennessee at Chattanooga and his Ph.D. in clinical psychology (1968) from Emory University, Atlanta. In 1968, he was inducted into the honorary scientific research society Sigma Xi. His formal education was augmented by frequent continuing education from Tulane University, Wharton School of Business, and the American Management Association.

After several years in the administration of a small manufacturing company, Carver spent the bulk of his time first in managing public mental health and developmental disability services, then in developing and applying governance and executive management concepts. His work in governance has spanned nonprofit, governmental, and corporate boards and consulting assignments on every

populated continent. His consulting and public presentations are conducted under the name Carver Governance Design.

Carver incorporated the National Council of Community Mental Health Centers (now the National Council for Community Behavioral Healthcare), America's oldest and largest trade association for providers of mental health, substance abuse, and developmental disability services in 1970 and served as its first chairperson. He presented testimony to U.S. House and joint Senate-House conference committees in 1969, 1970, and 1971. He has served as an adjunct and visiting faculty member at the University of Tennessee Space Institute, Tulane University, the University of Texas, and the University of Minnesota. He is currently adjunct professor at the Schulich School of Business, York University, Toronto, and at the University of Georgia Institute for Nonprofit Organizations, Athens, Georgia.

He is author of *John Carver on Board Leadership* (2002g). He and his wife, Miriam Carver, coauthored *A New Vision of Board Leadership* (Carver and Mayhew, 1994), *Reinventing Your Board: A Step-by-Step Guide to Implementing Policy Governance* (Carver and Carver, 1997c, 2006), and *The CarverGuide Series on Effective Board Governance*. He and Caroline Oliver coauthored *Corporate Boards That Create Value* (2002b). He is featured in the audiotape program *Empowering Boards for Leadership* (1992b) and the videotape *Reinventing Governance* (1993o). Carver has authored and co-edited the Jossey-Bass periodical *Board Leadership* since 1992 and has written a regular column for *Contributions* since 1997. He has published in Canada, the United States, the United Kingdom, Singapore, India, Australia, Brazil, Mexico, and Russia in publications such as the *Times of London*, *Economic Development Review*, *American School Board Journal*, *Solicitors' Journal*, *Gouvernance Revue Internationale*, *Chronicle of Philanthropy*, *Nonprofit World*, *Hospital Trustee*, *Leader to Leader*, *Public Management*, *Institute of Corporate Directors Newsletter*, *National Association of Corporate Directors' Directors Monthly*, *Corporate Governance Quarterly*, *Corporate Governance: An International Review*, *Nation's Cities Weekly*, and others.

John Carver and Miriam Carver live in Atlanta and operate independent consulting practices from there. Together, they conduct the Policy Governance Academy, a specialized advanced training program for consultants in the theory and practice of the Policy Governance model. Their joint Web site can be accessed at www.carvergovernance.com. John Carver can be reached at 404-728-9444 or johncarver@carvergovernance.com.

*To Miriam Carver, my wife and colleague,
for her love, support, and keen intellect
and for her authoritative mastery
of the Policy Governance model*

*With recognition to Ivan Benson,
our executive assistant,
for over ten years of faithful, competent,
and trustworthy service*

Prologue

Beginning and Ending with Purpose

Governing boards do not exist in nature. They are social constructs, which is to say that their purpose is what we say it is. The job design, rules, and processes of governing boards—which taken together I will call *governance*—are dependent on the purpose we assign to such bodies.

Although any group of people is capable of many roles, a serious paradigm of governance must be founded not on what a board *can* do but on what it *must* do—the essential elements rather than the optional ones that peculiar circumstances and inclinations may dictate. If we are to produce a science of governance, it is important to begin with an expression of purpose so fundamental that it applies to any body of persons with primary and topmost accountability for an enterprise. Such a universal underpinning could be called a *theory of governance*, a *technology of governance*, a *governance operating system*, or—the term I shall frequently employ—a *model of governance*. Given conceptual integrity in such a foundation, all further idiosyncratic elements and practices can be considered in light of whether they add to or at least do not impede fidelity to the basic principles.

The Policy Governance model is founded on just such a statement of essential purpose, one I contend to be true wherever the governing board phenomenon exists. Reduced to its minimum, *the purpose of governance is to ensure, usually on behalf of others, that an*

organization achieves what it should achieve while avoiding those behaviors and situations that should be avoided.

That purpose may appear so obvious as to be worth little attention. But the governance practices typical in all types of organizations in all parts of the world neither fulfill that purpose nor are consciously designed to do so. Furthermore, widespread publications on governance and a host of consultants' counsel about governance demonstrate the frequently unstated hodgepodge of purposes of governance. In the following chapters, I will make a case not only for the universality and utility of this simple purpose but for the concepts, principles, and discipline necessary for its fulfillment. If the core purpose is satisfied, all other board contributions and practices are optional. If it is not satisfied, all other board contributions and practices—no matter how intelligent or well conducted in themselves—will fail to yield accountable board leadership. A carefully crafted, conceptually rigorous purpose of governance itself, then, forms the heart of board effectiveness.

Introduction

It is virtually impossible to escape contact with boards. We are on boards, work for them, or are affected by their decisions. Boards sit atop almost all corporate forms of organization—profit and non-profit—and often over governmental agencies as well. The elected forums of our political jurisdictions are boardlike structures: Congresses, parliaments, state legislatures, city councils, and county commissions. In all kinds of human activity, we find formally constituted, empowered groups deciding courses of action and future conditions toward which some body of people will aspire.

This book calls for a profound transformation in the way we think about and practice the governance of organizations. It is not a book of tips but a description of a governance *system* that departs radically from the norm. Systems require considerable explanation and understanding but promise commensurate benefits. More vexing, they require a great deal of unlearning, because in most cases, they are not simply an overlay of new knowledge on old.

To explain the application of the Policy Governance model in governmental and nonprofit boards, Miriam Carver and I have written (or coauthored with others) a set of four books:

Boards That Make a Difference: This book is the starting point and the primary source. It is written not as a “how to” book

but to establish the concepts and principles that constitute the Policy Governance model.

Reinventing Your Board: A Step-by-Step Guide to Implementing Policy Governance. This book, which I coauthored with Miriam Carver, is recommended as the implementation guide for boards that have read *Boards That Make a Difference*.

The Board Member's Playbook: Using Policy Governance to Solve Problems, Make Decisions, and Build a Stronger Board. This book by Miriam Carver and Bill Charney presents Policy Governance boards a set of structured exercises with which to hone their governance skills and prevent deterioration of those skills.

John Carver on Board Leadership: Selected Writings from the Creator of the World's Most Provocative and Systematic Governance Model. This anthology of over one hundred of my articles is meant to be used for sporadic reading on specific governance topics.

For those seeking an overview of the entire model in condensed form, there are a few publications available. Most article-length pieces, however, are constrained to one or another aspect of the model rather than its totality.



The explication of the Policy Governance model in the following twelve chapters is intended to change forever the way people see the process, functions, and obligations of governing boards. The model borrows from truths long known but introduces unique concepts and principles as well. The intention of it all is to allow human beings to increasingly fulfill their intentions through servant-leadership, rich diversity of ideas, clear and supportive roles, and sturdy frameworks for their dreams.



The servant-leadership I refer to is the social accountability concept of Robert Greenleaf, a formula for leadership that is rooted in servanthood. Greenleaf's ideal of servant-as-leader is a necessary component of responsible governance.

WANT MORE?**Further Reading**

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Leadership by Governing Boards

A Vision of Group Accountability

The vision I have for boards aims for far higher quality in the boardroom than has been common. My aim in this opening chapter is to broadly describe that vision, setting the stage for more detailed description in the following chapters. To begin, I look at ways of classifying boards in order to then limit the scope of the book to governing boards. Next, I describe the peculiar market circumstances that justify grouping nonprofit and public organizations together. I then step back to view the difficulty all boards—business, nonprofit, and public boards alike—have in fulfilling their opportunities, difficulties so prevalent as to require radical reform in governance thought. I summarize the normal prescriptions for board ills along with the reasons that these existing answers are insufficient, including those associated with the recent international flurry of corporate governance codes. I make the case that governance deserves special attention apart from other elements of organization. The chapter concludes with an argument for a new model of governance and the contributions this model should make to boards' capacity for strategic leadership.

The Vision

This book is not about making incremental improvements in boards. It is written primarily not for boards in trouble but for the best of today's boards. It describes and urges nothing less than a

transformation in the practice of governance and, more important, in how people think about governance. My intent is to explain a compelling logical, philosophically founded yet completely practical approach to every governing board's job, one that renders it impossible to ever think of boards the same way again. Undertaking that aim is recognition that—analogous to Kant's compromise between extreme rationalism and extreme empiricism—governance theory without practicality is empty and governance practice without theory is blind.

Although this entire book is devoted to detailing my vision, I can give a broad-brush preview here of the kind of governance I have in mind. Boards will truly be leaders—not by invading territory best left to management but by controlling the big picture, the long term, and the value-laden. Boards will delegate powerfully yet safely to those who carry out the work of the organization, empowering them to the maximum extent that is consistent with maintaining the board's own accountability. Boards will seek diversity and inclusion but will express their decisions with one voice, not with the multiple voices of individuals. Boards will be grounded in an allegiance to a base of legitimacy that I will describe as tantamount to shareholders—that is, owners of the organization. In fact, the importance of the owners-to-board link is so great that the proper board job is best described as ownership one step down rather than management one step up. This concept alone completely changes the nature of governance.

This vision of board leadership applies equally to all governing boards, whether new or old, whether large or small, whether operating charitably or for profit. In the words of Adalberto Palma Gómez, senior partner of Aperture, S.C., a consulting firm in Mexico City, the Policy Governance model “provides a new vision for boards in all kinds of institutions, from governmental to private and nonprofit ones.” In a similar vein, Sir Adrian Cadbury, the father of corporate governance codes, opined that the Policy Governance paradigm “is all embracing; it can be applied to any type of board

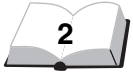
or organization” because it is “a unifying theory of governance that covers both the corporate and voluntary sectors.”

The vision I will describe here goes to the heart of why a governing board needs to exist by identifying the irreducible number of principles that apply to the task. Doing so enables the construction of a model or paradigm or theory or operating system—each of these words will work—that applies to any governing board of anything anywhere. I will deal with the deceptively appealing but ill-informed one-size-fits-all objection to this universality as the story unfolds.

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In much the same way as it has been said that management is management, I will defend the idea that governance is governance. Prospective board members, executives, and consultants who learn the basics of such a universal governance theory can then apply it to any board situation in which they find themselves. Such a claim, of course, calls for great integrity in the fundamentals—an integrity of design I hope to explain to the reader’s satisfaction.

It is important to note that the governance framework presented here is just that, a framework. It could be called a *foundational technology* of governance in that many other techniques can be adopted if kept within this framework. That is, as long as the principles of the paradigm are preserved, others’ methods of problem solving, prioritizing, or interacting—for example, various problem-

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solving approaches, Myers-Briggs interpersonal dynamics, mind mapping, force field analysis, affinity diagramming, and other methods—can be very useful. If rigorously framed by the discipline of Policy Governance, good board work can be assisted by adapting all or parts of the great amount of study that has been devoted to decision makers. (Caroline Oliver’s analogy of an operating system that is able to run many programs is fitting.) But since such aids—regardless of how good they are in themselves—were likely not developed with Policy Governance principles in mind, they can

harm governance if not used judiciously. For example, the most sophisticated problem-solving techniques are useless if they are applied to the wrong level of problems.

I deal with governance as it shows up in nonprofit and governmental organizations in this book, leaving governance in equity corporations to the more specifically targeted *Corporate Boards That Create Value: Governing Company Performance from the Boardroom*, which I wrote with Caroline Oliver in 2002. (The reason for omitting detailed discussion of profit-oriented boards here is not that the same fundamentals do not apply but that the language and owner intentions are so very different. My reason for this exclusion will be explained more fully in this chapter. But a very brief treatment of equity corporations can be found in Resource A.)

Moreover, because it is so critical that boards fully understand the new ideas or, at least, the new way in which old ideas fit together, this book is not a “how to” text but one of principles and concepts. Although practical implementation is not overlooked in these pages, much of the detail on implementation is left to *Reinventing Your Board: A Step-by-Step Guide to Implementing Policy Governance*, which I coauthored with Miriam Carver in 1997, the revised edition of which is scheduled for publication in 2006.

In other words, I present a radically modernized *way to think* about governance, a conceptual coherence on which all real-world specifics and tailoring must be based. But before I can even begin to fulfill my intention to describe my vision for governance integrity and leadership, it is necessary to carve out some distinctions and to demonstrate the need for change in the first place.

Varieties of Boards

At one end of the decision-making scale, decisions are made by individuals and by small groups such as families or associates. At the other end, decisions are made in plebiscites and elections. In between, decisions are made by empowered bodies called boards. Two

considerations delineate those bodies to whom my commentary directly applies: (1) the organizational position of the board and (2) the economic nature of the organization.

Boards Considered by Organizational Position

Governing board. The most important kind of board is that of ultimate corporate accountability—the governing board. The governing board is always positioned at the top of the organization. *Corporate board, board of directors, board of trustees, board of regents,* and similar titles denote groups that have authority exceeded only by owners and the state. The governing board is as high in the formal structure as one can go. Its total authority is matched by its total accountability for all corporate activity.

Advisory board. There are also boards whose function is to give counsel, not to govern. Advisory boards may advise the governing board, the CEO, or other staff. They can be positioned anywhere

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in the organization, as long as they formally attach to some proper organizational element. Advisory boards are optional and have only as much authority as the authorizing point

within the organization chooses to grant. In some fields, it is common to find advisory boards that have been given extensive authority and whose advice is virtually certain to have an effect. As long as some position within the organization can retract the group's authority, it is not a governing board. An advisory board's authority can be curtailed only by the advisee, by law, or—in the case of membership organizations—by the membership.

Line board. Considerably more rare is the line board. The word *line* describes a heretofore unlabeled board type. Management literature

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has paid little attention to this form, except for the modified form discussed by Ackoff. The line board is not advisory, for it wields definite authority over subordinate

positions. But it is not at the top of the organization and does not, therefore, qualify as a governing board. It is merely a group inserted where a single manager might have served.

Workgroup board. Sometimes people speak of a “working board” when they simply mean a board that stays busy. Hence, a governing, advisory, or line board might be a working board. My term, *workgroup board*, however, denotes a governing board with little or no staff. It must govern and be the workers as well. Frequently, boards that confine their role solely to governing began as this type of dual-function group.

Very small organizations, such as civic clubs, often have boards in this dual position. The group is incorporated, so a corporate governing board exists. Absent enough funds to pay a staff, board members are the only workforce in sight. This kind of board is not a true type in the way that governing, advisory, and line boards are; it is merely a governing board with another set of responsibilities. The organizational position of a workgroup board is not only at the top but everywhere else as well. It is very important for such boards to remember that they have two different, simultaneous roles and that they can best perform those roles by keeping them clearly separated.



Boards Considered by Economic Nature of the Organization

The power and responsibilities of advisory and line boards are determined by the specific organization rather than by a commanding generic principle. The foregoing discussion serves only to distinguish governing boards as the sole subject of this text. Throughout this book, I deal only with boards in their governing role.

It has long been common practice to differentiate the vast and disparate array of organizations governed by boards into three groups: *profit* (*equity* or, loosely termed, *business*), *nonprofit*, and *governmental*. Additional characteristics distinguish subgroups of each of these three main groups. For example, equity corporations are grouped as *public* (publicly traded) and *private* (no public trading). Nonprofits are also divided into *public* (directly related to government, sometimes quasi-governmental) and *private* (related minimally or not at all to government). Nonprofits range from purely

charitable to trade or professional associations whose aim is to serve the interests of their members. Governmental organizations include not only the jurisdictional governance of cities, townships, counties, provinces, and states but also districts for water supply, schools, pollution control, and a host of other authorities. For the present discussion, I ignore the subgroups and concentrate on the three major types: profit, nonprofit, and governmental.

Profit boards. Equity corporations engage in trade in order to produce a return for shareholders. These companies ordinarily compete in markets that range from free markets to markets that enjoy considerable governmental protection. Governing boards in business range from the obligatory figurehead board of an entrepreneurial business to a highly formalized, paid group representing diverse stockholders.

Nonprofit boards. Corporations chartered for charitable purposes (or, at least, not for return on equity) have no stock ownership, though statutes may require a formal membership as a stockholder-equivalent. Internationally, such organizations are often referred to as *nongovernmental organizations* (NGOs). In the United States, the term *private voluntary organization* (PVO) is frequently used to describe international nonprofits. NGOs and PVOs are included among nonprofit agencies.

Although nonprofit corporations may accumulate surpluses, their accounting systems have no place for profit. They differ from other corporations in that they are exempt from certain taxes and are unable to distribute their surpluses to holders of equity. (In the United States, this exemption includes not only the familiar 501(c)(3) but several other categories of preferred tax status.) Nonprofit corporations frequently receive a large proportion of their revenues from funding from other organizations and donations from individuals rather than from sales of a product. Obligations of nonprofit governing boards under the law, however, are similar to those of boards of other corporations.

Governmental boards. Governmental boards, elected or appointed, are bound by more legal requirements in both their composition and their process than are the foregoing types. Governmental organizations are like nonprofit organizations with respect to profit and distribution of earnings. Governmental boards may be quasi-governmental (for example, boards for water systems or airport authorities) or fully governmental (for example, city councils). They may or may not have taxing authority. Governmental organizations are similar to nonprofit organizations in that they derive their revenues not from sales but from taxation and user fees.

Profit, nonprofit, and governmental governing boards have much in common. They are alike in that they all bear ultimate accountability for organizational activity and accomplishment. They are unlike in how they are situated in the larger context of political and economic life. They differ in how much public scrutiny they receive, a factor that produces differences in the amount of posturing involved in board dynamics. They vary in the degree to which the procedures of governance are prescribed by law. They differ greatly in the strength of the traditions that drive their methods. Many governmental boards have traditions that were established long before twentieth-century management appeared on the scene. Powerful precedents make it difficult for legislatures and county commissioners, for example, to behave as though modern management principles were ever developed.

This book focuses specifically on governmental and nonprofit governing boards. I am concerned not with what those boards are called but solely with their function as governors. Some of the alternate terms for *board* are *council*, *commission*, *assembly*, *house of delegates*, and *elders*, among many others.

From here on, the word *public* will refer to the various types of governmental entities, because in common perception, *public* bridges the gray area between special-purpose governmental groups and quasi-governmental nonprofits. This focus is useful as we explore

governance, even though there is nothing inherent in the nonprofit or public organization per se that causes governance to be different from that in profit companies. Then why do I address public and nonprofit governance, particularly in view of the extremely disparate array of organization types included under that rubric? After all, are they not more different than they are alike? The Ford Foundation, a community arts guild, and a credit union may not appreciate membership in this mixed club. The justification for classifying them together is that the boards of most nonprofit and public organizations share a compelling factor: the peculiar nature of their markets and what their owners want the organizations for.

Life in the Muted Market

Companies organized for profit typically receive money through sales. Sales revenues are the result of an exchange between the company and consumers. Consumers judge whether the good or service is worth the price. If it is not, they do not buy; if it is, they do.



By and large, then, the success of companies competing in such a market is revealed in their financial statements. But for nonprofit and public organizations, income statements not only fail to express success and failure but may even obscure them. In other words, the “bottom line” does not show up in their financial reports.

Nonprofit and public organizations ordinarily receive money from sources other than those who use their products. Direct consumers may pay a discounted price or even nothing. The organization may receive a subsidy from donors and tax sources to make up the deficit. There is no consumer judgment of the product’s rightful price, because the consumer is not confronted with that choice. Consequently, although nonprofit and public organizations may be buffeted about by budget pressures and funding squeezes, there is no direct market force bearing on the relationship between product and price.