



# BoardWorks

## Policy Making: Does your board put the cart before the horse?

When a board struggles to give effective direction to its organisation and to get leverage over key organisational performance issues it is often because one of two conditions is present. The board's attention is more on ad hoc operational decision making than on high level policy making. Alternatively, the board does tackle policy making but is often ineffective because its starting point is at too low a level.

Both conditions bring to mind the old saying that 'the cart is before the horse' or, in other words, things are out of order. This is a common problem in the boardroom environment. When the 'cart' (ad hoc, low level problem solving) is ahead of the 'horse' (principled, broadly applicable, high level policy making) the quality of both boardroom and management decision making is compromised. There are many symptoms of this. For example:

- Boards go around in circles, struggling to reach principled, rational decisions.
- Decisions that are made are dominated by minority views- either those of individuals whose 'solution' is advocated most strongly or persistently or those who (for whatever reason) are deferred to by their colleagues.
- Directors and management leave the room with different perceptions of what has been decided and why - and with different levels of ownership and commitment.
- Decisions often turn out to be different from those previously made about similar issues. Inconsistency (and often related to this, a lack of transparency) invites challenge from stakeholders and relitigation within the board.
- When board decisions are implemented by management the results are often quite different from what the board imagined they would be.

Of particular concern arising from this horse and cart mix-up is that board and management relations are put under stress. Too much of the board's time is taken up with individual directors agonising over the types of decisions managers and other full-time staff should be making. When managers get on and make decisions without reference to the board these are likely to be criticised because they don't suit individual directors. Because the board has not created a framework to guide and mandate management decisions, and does not speak with one voice, managers become confused about the board's expectations and about what is 'approvable'. Depending on their personalities managers become tentative and risk averse - or sometimes completely the opposite!

### What is the answer?

Dealing with these various problems means facing up to one of many paradoxes in governance - a governing board is accountable for all the decisions that are made in its organisation even though it has the time to make very few itself. This reality forces boards to apply some form of *remote* or 'hands-off' control that allows others to act even though the board is not in session.

The most effective form of remote control a board can have is the process of *policy making*. With a policy framework in place a board can confidently delegate authority to others to make decisions

within that framework. In real time the board can be in effective control influencing via policy, everything that happens in the organisation.

Until a board accepts this reality and develops its policy making capability, it will likely see its time and effort disappear into a miscellany of minutiae. It won't have anything like the leverage it needs over its own and the organisation's performance in order to live up to its legal and moral duties. It will muddle along from one meeting to the next, at best reacting to events as they occur, a bit-part actor in someone else's play.

## **What is 'policy'?**

One useful definition is that a policy is 'a principle or rule to guide decisions and achieve rational outcomes'<sup>1</sup>. Rather dramatically John and Miriam Carver describe board policies as 'the expression of a board's soul'. More specifically they define policy as 'the value or perspective that underlies action'<sup>2</sup>. This reflects their view that a board's policies embody its members' beliefs, commitments, values, and vision.

## **What purposes does policy serve?**

A board has much to gain from effective policymaking.

- It forces the board to discuss and develop a collective consciousness about what is important and then to make this explicit.
- It facilitates more effective and efficient decision making by requiring the board to address questions about 'what' (ends) before it turns its attention to 'how' (means).
- It helps the board to identify not only the decisions it must make itself but in what logical sequence. This has an impact on decision-making by forcing attention to be paid to problem definition before turning to possible solutions.
- It helps the board to identify and focus on two complementary targets for policy: what the organisation should achieve and what it must avoid.
- It signals to the organisation and the people in it the direction of travel and what is important on the journey. It then helps everyone to keep 'on track'.
- It creates a framework for the board to assign decision-making rights (delegation).
- It improves - by clarifying - the relationship between the board's governance role and what is best left to management. Board efficiency and effectiveness and management satisfaction is typically improved.
- It gives the board greater control over what happens in its organisation while at the same time facilitating greater empowerment (and clearer accountability) of the chief executive and staff.
- It constrains individual board members from 'deep diving' into detail that is either premature or unnecessary.
- It establishes decision-making criteria in advance which protect against 'random' and knee-jerk decisions. These also act as a reference point for subsequent evaluation of decisions.
- By making explicit what is important to the board it determines what should be monitored (policy compliance) and facilitates 'criterion referenced' reporting.
- It helps sort out what topics should be on (and off) the board meeting agenda and what is relevant and useful for management to report. It makes board meeting time 'count'.

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<sup>1</sup> <http://en.wikipedia.org/wiki/Policy>

<sup>2</sup> John Carver and Miriam Mayhew Carver (1996) Basic Principles of Policy Governance. San Francisco. Jossey-Bass Publishers. p.7

- It forces the board to speak with one voice - once the board has adopted a policy the preferences of individual directors in relation to that topic no longer have any relevance or weight.

### **How is policy made?**

Like much else that is truly board work, policy making is largely an intellectual exercise. It is about the board 'thinking things through'. This has a number of implications for the board and how it organises its work. While the chief executive and his/her team have an important part to play in advising the board, providing analysis of key issues etc., policy making is something the board must devote time and concentration to itself.

By definition, policy making must be proactive. Because the purpose of policy is to frame, guide or even direct it must precede specific decisions or actions. Unfortunately, much that passes for governance policy making is little more than ad hoc, after the fact, problem fixing. Attempting to put a partial policy 'Band-aid' on some sort of corporate wound - without ensuring that it is part of a coherent and integrated policy framework - can cause more problems than it solves. Also, reactive policymaking may be embarrassing or even a threat to the individuals involved if it forces attention to a problem that should never have arisen in the first place. For example, developing a conflict of interest policy once a board member is perceived to have 'crossed the line', is inherently problematic.

In a practical sense, the most challenging aspect of the policy-making process is the sequencing. It is very important to start from the highest level of an issue before proceeding progressively to lower levels. This is because a large or higher-level policy 'contains' smaller or lower level policy pronouncements. This is a matter of logical containment that John Carver likens to the way a set of mixing bowls sit one inside another according to their relative size. Thus, smaller policy decisions lie within larger ones. A local authority, for example, cannot easily decide whether it should be a provider of subsidised housing, let alone decide what rent to charge, unless it has first determined that it has a policy of meeting the welfare needs of certain groups in its community.

Efficient, arm's length, policy direction can be achieved without going into much detail at all. A simple test of whether a board has articulated its policy in enough detail and to a level where it can satisfy its need to be accountable - is by this question. 'Have we expressed our policy sufficiently clearly that we are now ready to allow someone else to interpret and implement it?' When the answer is 'yes' the board has said enough.

### **Conclusion**

When, for whatever reason, a board encounters a decision-making problem the most useful thing it can do is to ask itself the type of questions that will tell if it has a 'cart before the horse' problem.

- What is the policy relevance of this? (Is it part of the board's job at all?)
- Do we have any policy that frames this decision?
- Have we dealt with the highest (most abstract, generally applicable) policy level relevant to this matter or are we jumping in at too low (specific, particular) a level?