



By Mitch Dorgër

In the Board Room

Creating a Policy Focus for Your Board

Consultants who write about the best practices for boards of directors highlight the three primary areas where boards should focus their attention: vision and strategy, policy determination, and oversight. In my experience, the hardest of these for boards to actually handle is determining policy and maintaining a policy focus.

A few years back when I was still a chief executive officer, I led an effort to get my board to establish and document the policies that were needed to govern the organization. What existed in the organization at the time were two things. The first was a series of oral myths that were passed down from chairman to chairman that we referred to as “Old Spanish Customs.” In most cases, no one knew why these customs existed or even if they were still appropriate. The second thing posing as policy was a series of standing operating procedures. You know – “We’ve always done it that way.” No one was critically examining these practices to see if they needed to be modified or even abandoned to meet the realities of the times. There were very few actual policies in place.

When I talked to the board about creating a policy focus, there was some confusion about what policies are and what they are not. They are not “Old Spanish Customs” or existing practices. Instead, they are well thought-out direction from the leadership of the organization telling the operational managers of the organization how the future activities of the organization should be carried out. Policies can come in a variety of forms including bylaws, organizational policy manuals, and other policies adopted by the board. Things that are not policy are day-to-day board decisions, non-mandatory guidelines or suggestions, or operating practices.

So why have policies? The simple answer is that clear, concise and current policies improve the overall management of

the organization. The collection of these policies describes the acceptable bounds for management action. By having these documented, not only does the board know what it is saying to the operation managers, but it speaks with one voice – avoiding a problem that many organizations have with multiple sources of policy guidance. Moreover, most managers appreciate operating in an environment of clear policies because they know the boundaries of the executive authority while at the same time having room to use their own judgment and experience within the bounds of the policy limits.

When developing the policies for an organization, leaders should consider five criteria for developing effective policies. First, the policy should not be situation specific. I remember one board member several years ago who said something like, “We don’t need policies, every decision the board makes is policy. That’s all we need.” Not true! Most board decisions are not policies, they are situation specific judgments based on a unique set of circumstances. Policies should be broader than a specific situation and should address all future instances. Secondly, when making policy to guide future activities, the board should specifically recognize that it is setting direction for the future. It should be a conscious decision to set such direction. Third, all policies should be recorded and accessible to board members who should not have to go through years of meeting minutes to find what the policy is on a particular matter. Fourth, policies need to be disseminated to the people who will be bound by them. It does no good to have secret policies that only the board is privy to if the purpose of the policy is to influence management behavior. Fifth, policies need to be enforced. If a policy is not enforced, it is merely a suggestion. All too often boards establish policies which look good on paper, but in reality are never consulted or enforced. Finally, policies need to be

reviewed periodically and updated. An outdated policy which does not reflect the current realities can be harmful to the organization. Policies need annual or at least biennial review.

At this point in my discussion of policies, I am often asked what areas should be covered by board policies. The answer depends on what matters to the board. Policy governance expert John Carver says that the policy framework should cover “the entirety of that which is governed.” (1:36) With this guidance in mind, I suggest an octagon as the model to encompass the organization’s activities. Each side of the octagon represents some segment of board responsibility. The eight sides of the octagon are

1. Ethics and accountability (basic good governance)
2. Board and board members
3. Board structure and operations
4. Chief Executive
5. Finance (including investments)
6. Fundraising (of all types)
7. Human resources
8. Communications

Let’s look at each of these in a little more detail. (Note 2)

Ethics and Accountability (which might also be termed general governance) encompasses a variety of topics. This is the category where one would expect to find the mission and vision of the organization documented. There might also be a policy defining the core values of the organization. Other policies that should be included in this category of policies are a code of ethics for the organization, a conflict of interest policy, a board confidentiality policy, a whistleblower policy, and a document retention and destruction policy. These latter two policies are required by Sarbanes-Oxley for both for-profit and non profit organizations.

The Board and Board Member category of policies should include a description of the duties of a director as well as a statement as to what responsibilities the board has assigned itself. It should also include policies on the expectations the board has for its members as well as the protections it is providing for board members (i.e., insurance, indemnification, etc.). This section should also contain policies on board compensation (if any) and expense reimbursement (if any). Finally, in this section there should be a policy on board self-evaluation to

include frequency, type, etc.

After defining the responsibilities of individual members, the board should decide its policies with regard to **Board Structure and Operations**. What committees will be formed? What responsibilities will each committee have? Who will chair committees? What delegations of authority are appropriate for each of the committees? This section may also include the policies related to any advisory committees the board may wish to create.

The section on the **Chief Executive** should first and foremost include a clear and detailed policy statement regarding the duties and responsibilities of the CEO. This description may be in the bylaws, but if it is not, board expectations should be spelled out in a policy. This section should also include policies on chief executive evaluation and compensation determination.

In the area of **Finance**, the board should describe its policies for budgeting. For example will depreciation be fully funded? Will interest and dividend earnings be spent or saved? How optimistic should revenue projections be? Should there be contingency funds set aside for the year? There should also be policies regarding the creation and management

of reserves and how investments will be made with the reserves or endowment. The next group of policies in this area should be policies related to audit and IRS Form 990 submission. Subjects might include how often a full audit will be performed, how often auditors will be changed, the selection procedures for the auditor, audit limits, board-only meetings with the auditors, etc. The final policy in the finance area should be risk management. How will the organization deal with areas of identified risk? What insurances will be carried? What deductibles will be maintained? Will the organization self-insure? Will insurance be carried on volunteers? What contingency planning should be done for events, etc.?

The next category is **Fundraising**. I want to emphasize that I am not limiting this term to just requesting money from donors and foundations. In this category, I include all ways in which an organization raises funds. This may be through events, sponsorships, ticket sales, licensing etc. But policies in this area should also include things like donor relations, policies on what types of gifts will be accepted and what roles and responsibilities board members have in the fundraising arena.

The next category of policies should be **Human Resources**, including both employees and volunteers. Some of these policies may be legally required in some states while others are common sense policies. For example there needs to be policies on workplace harassment and on handling grievances. Many boards also have nepotism policies and equal employment opportunity policies. Finally, there should be policies on performance evaluation of employees and perhaps even for volunteers.

The final area for policy determination is **Communications**. In this category, the board will want to include policies on media relations, spokesperson responsibilities, electronic media use and protections, and lobbying and political activities. There should also be policies for crisis communication just in case an adverse situation arises.

That's a lot of policies, and the process may seem daunting, but I assure you if the policies outlined above are developed and kept current, the organization will be better off for having invested the time and energy to accomplish the task.

The final question that often comes up regarding policy development is how to go about taking on this daunting

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task. I recommend the following steps for the policy development process.

1. Start with an end in mind. Will you be creating a policy manual, or some other form of policy management? Also, consider how the policies will be accessed and how they will be distributed to users.
2. Next take an inventory of what policies already exist. This would include the written policies in place as well as the "Old Spanish Customs" which might be hanging around posing as policies.
3. Develop an outline of what policies are needed in the judgment of the board. Consider the topics outlined above and then discuss what other areas the board members feel should be addressed. Remember, the board is defining the future activities of the organization and setting the acceptable bounds for managers. The board should quiz itself about other areas they may feel need to be guided by established policies. If they feel it is important to provide their collective guidance in any particular area, a policy should be developed.
4. Once the topics are defined and a basic format agreed upon, divide up the task of preparing the draft policies among the members of the board. Policy writers need not start from scratch. There are numerous policies outlined on the internet and in books available through sources such as BoardSource. Don't try to reinvent the wheel, but be sure to customize any generic policies you uncover to meet the specific needs and realities of the organization.
5. Once the policies are drafted, the board should review them according to some sort of time line. This is important work, so don't try to deal with a host of new policies in one meeting. Give the board time to carefully review and consider each proposed policy before adopting it.
6. Once the policies are finalized and formalized, bring them to life within the organization. Make a special effort to ensure appropriate managers know and understand the policies created and how the board will exercise its oversight responsibilities with regard to each policy.
7. Finally, create a process to periodically review and update policies as well as to consider new areas for policy development. This should be a major part of the board's annual work plan. Again, I suggest splitting up the review to create a manageable workload. Perhaps take one category of policies at each meeting and spread the task over the course of the year.

Trust me, policy development efforts will pay off in a variety of important ways and the board will have created a better, more efficient and more effective organization as a result.

Notes:

1. Carver, John, *Boards That Make a Difference*, Jossey-Bass Publishers, San Francisco, 1997.
2. Lawrence, Barbara and Outi Flynn, *The Nonprofit Policy Sampler*, BoardSource, Washington DC, 2006

Mitch Dorger is the principal of Dorger Consulting. He is a specialist at improving organizational effectiveness, particularly nonprofit organizations. He can be reached at mitch@dorger.com or 626-255-5832.