KOHA-PICD
Kaihono hei Oranga Hapori o te Ao -
Partnerships for International Community Development

Organisational Reviews 2008-2009

Lessons learned for the NGO community

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Abbreviations

CE	Chief Executive
CEO	Chief Executive Officer
CID	Council for International Development
COGS	Community Organisation Grants Scheme
KOHA (or KOHA-PICD)	Kaihono he Oranga Hapori o te Ao - Partnerships for International Development (formerly VASS)
NDRF	NGO Disaster Relief Forum (a committee of CID)
NGO	Non-government organisation
NZAID	New Zealand's International Aid and Development Agency (a semi autonomous body established in 2002 within the Ministry of Foreign Affairs and Trade)
PMC	Programme Management Committee of KOHA-PICD
VASS	Voluntary Agency Support Scheme (renamed KOHA-PICD in 2006)

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Summary

The KOHA-PICD scheme (Kaihono hei Oranga Hapori o te Ao - Partnerships for International Community Development), now often called KOHA, is a co-funding scheme with NZAID (New Zealand's International Development Agency) and New Zealand non-government organisations (NGOs) to support overseas community development.

KOHA organisational reviews aim to confirm the compliance of the organisations with the scheme's criteria and requirements, and their capacity to meet KOHA standards. They also aim to assist the organisations to improve their work with partners in the field by identifying general areas of learning. The reviews assess progress made against the recommendations of the organisation's last review, make suggestions to NZAID and the PMC (Programme Management Committee) about how the scheme can be improved, and identify lessons that can be shared with the wider NGO community in Aotearoa New Zealand.

In this report we present some generic lessons, identified through discussions with the organisations, their partners, and the PMC, for the consideration of the wider NGO sector involved in overseas development. Some of the issues have been included in Lessons Learned reports from the reviews in previous years, but we have included them again this year to emphasise their ongoing importance.

Lessons learned

1. The PMC provides general and specific feedback to organisations to help them to ensure best practice in international community development practice, and organisations need to ensure they have a system for ongoing reflection and improvement to best utilise this information.

2. The KOHA review process should be one aspect of the continuous improvement process for organisations, rather than a ring-fenced event for the organisation.

3. Field visits are most usefully approached as opportunities to extend this reflective practice into a field-based context, and should not turn into whistlestop tours.

4. Organisations should be aware that the financial requirements of the KOHA scheme are based on good practice, as they result in transparency and accountability for all donors.

5. The special character of organisations can be the basis for encouraging donors to understand and support participatory community development.

6. A broad funding base is desirable for the ongoing viability of the organisation.

7. Organisations need to be aware of their "lifestyle stage", and engage in discussions at both staff and board level to help plan for the development of the organisation.

8. Organisations need to be aware of the model of governance operating in their organisation, and staff and board members need to engage in ongoing discussions about the extent to which the current model best reflects the needs of the organisation, and make the changes necessary.

9. Organisations should ensure that they keep up-to-date with best practice processes such as those needed to protect members of partner communities and to support their staff involved in field work.

10 A strategy for community development should allow time in its early stages for identification and consolidation, and include plans for sustainability once the project or programme ends.

11 The New Zealand NGO may be able and should endeavour to ensure that technical advice is provided to staff or partner staff in the field to support the programmes.

12 Organisations supporting micro-finance need to be aware of the risks involved, and how these can most simply and effectively be managed.

1 Introduction

1.1 The KOHA-PICD scheme

The KOHA-PICD scheme (Kaihono hei Oranga Hapori o te Ao - Partnerships for International Community Development), now often called KOHA, is a co-funding scheme with NZAID (New Zealand's International Development Agency) and New Zealand non-government organisations (NGOs) to support overseas community development. It was established in 1974 and originally known as the VASS (Voluntary Agency Support Scheme). It is administered by a Programme Management Committee (PMC) made up of elected NGO peers, the NZAID Programme Manager (Civil Society), and an independent chairperson.

The aims of the KOHA-PICD scheme are outlined in the KOHA Handbook, which is available at http://www.nzaid.govt.nz. The Handbook states[1] that the purpose of the scheme is "to improve the lives of people in developing countries by addressing poverty and injustice internationally, through overseas community development projects and programmes supported by New Zealand NGOs".

The HAF (Humanitarian Action Fund) is a sister scheme to KOHA, designed to support the international humanitarian work of New Zealand NGOs. Funding is supported for emergency prevention and preparedness, emergency relief and rehabilitation, and reconstruction projects.[2] It is managed by the KOHA-PICD PMC, with the addition of the vice-chair from the NGO Disaster Relief Forum (NDRF)[3].

1.2 Organisational reviews

Each year the PMC selects a number of organisations participating in the scheme for organisational reviews[4]. KOHA-PICD organisational reviews aim to confirm the compliance of the organisations with the scheme's criteria and requirements, and their capacity to meet KOHA standards. They also aim to assist the organisations to improve their work with partners in the field by identifying general areas of learning The reviews make recommendations to strengthen compliance and quality of systems, or refer significant issues and concerns to the PMC. In addition, they assess progress made against the recommendations of the organisation's last review, make suggestions to NZAID and the PMC about how the scheme can be improved, and identify lessons that can be shared with the wider NGO community in Aotearoa New Zealand.

The Terms of Reference for the 2008-2009 reviews are attached as Appendix 1. We reviewed two organisations: SurfAid New Zealand and TEAR Fund New Zealand. The reviews included visits to partners and communities in Indonesia and India respectively.

1.3 The "lessons learned for NGOs" component

The KOHA-PICD organisational reviews aim to be a participatory process involving the NGOs being reviewed, their partners, the PMC and NZAID. Reviews are regarded as an opportunity to learn and incorporate that learning into future practice. As in previous years, areas of learning specific to the organisations reviewed in 2008-2009 were discussed in the confidential organisational reports.

[1] KOHA Handbook, p. 12, http://www.nzaid.govt.nz/what-we-do/koha-picd.html (05/09/08)

[2] HAF Handbook (2009), p. 8, http://www.nzaid.govt.nz/what-we-do/docs/haf-handbook-2138529-april09.pdf (15/09/09)

[3] Humanitarian Action Fund, http://www.nzaid.govt.nz/what-we-do/humanitarian-action-fund.html (15/09/09)

[4] KOHA Handbook, pp. 80-85, http://www.nzaid.govt.nz/what-we-do/koha-picd.html (05/09/08)

The generic lessons - which we have identified through discussions with the organisations, their partners, and the PMC - are presented in this report for the wider NGO sector involved in overseas development to consider. Some of the issues have been included in Lessons Learned reports from the earlier reviews, and we have included them again this year to emphasise their ongoing importance. Consequently, as well as lessons from the two organisational reviews we undertook in 2008-2009, this report includes important aspects from the other reviews we have been involved in.

1.4 Reviewers

Dr Hilary Smith and Dr Stephen Haslett of Systemetrics Research Associates Ltd[5] served as contracted reviewers for the 2008-2009 reviews.

[5] See www.systemetrics.co.nz

2 Lessons about engagement with the KOHA and HAF scheme

The KOHA and HAF schemes are designed to reflect best international community development practice and humanitarian action practice respectively, and the Handbooks are updated regularly to reflect current understandings and approaches. With a committee of peers from other NGOs, the schemes are very responsive to the realities in domestic and overseas practice, and the workshops organised by CID also respond to needs identified from the sector.

General feedback on the KOHA and HAF scheme is provided through updates from the PMC posted after each meeting on the NZAID website. Organisations get regular individual feedback on their participation in the scheme through responses to the funding proposals they submit, as well as from the organisational reviews which are carried out regularly for larger organisations, but less so for smaller organisations[6].

2.1 Organisational reviews

The organisational reviews provide in-depth assessment on each organisation's engagement with KOHA and/or HAF. As the scheme is based on good community development practice, compliance with the scheme means that an organisation is engaged in good community development practice as a New Zealand NGO. The reviews are focused on assessing the organisation's capacity for good development, rather than working through an abstract checklist of KOHA criteria, and are carried out using participatory processes (see Terms of Reference in Appendix 1).

There has been a tendency for organisations to approach the reviews as ends in themselves, for example by employing pre-review consultants or down-playing any particular issues faced by the organisation. While the reviews may be seen as a timely opportunity to revise policies and procedures, organisations should be engaged in an ongoing process of reflection and development, and the reviews are of most value when they are incorporated into this process. If there are issues the organisation is considering, the reviews are a good opportunity to discuss strategies for addressing them.

Field visits are usually included in the reviews, but where a local partner organisation is involved it is not an assessment of their work. The visits provide valuable opportunities to contextualise the New Zealand organisation's work, and particularly to allow the reviewers to see how the partnerships work on the ground. In preparing for these visits it is important if not crucial that the schedule allows enough time for the review team to engage with the New Zealand organisation and its partners and other stakeholders in a meaningful way.

2.2 Funding

As KOHA and HAF involve the disbursement of public money, there are a number of requirements based on the way this is to be treated by organisations in their accounts. Although these may result in a sizable compliance cost, they are again based on good practice, for example the requirement that KOHA funding is specifically detailed in consolidated annual accounts. This means funding from different sources must be carefully delineated so that it is clear exactly what KOHA funds are being spent on. It is also advisable to note details of sources of matched funding, such as community as well as commercial donations, so that the wider community base of support for the organisation can be clearly seen.

Organisations have their special character from their mission, with a constituent base of donors accordingly, e.g. the surfing community, the Christian community. The most

[6] KOHA Handbook (2008, 3rd ed.), p. F/4.

successful fundraising appeals to the special character of that community in order to support the organisations work, e.g. the individualism and dynamism of surfers, or the Biblical principles and values of Christians. Overt linking of these qualities to the principles of participatory international community development in their fundraising materials as articulated through the KOHA scheme can provide the organisations with opportunities to increase the understanding of their donors about good community development. This can also broaden the donor base itself into a wider community of supporters, which can be essential for the ongoing viability of the organisation.

Lessons

1. The PMC provides general and specific feedback to organisations to help them to ensure best practice in international community development practice, and organisations need to ensure they have a system for ongoing reflection and improvement to best utilise this information.

2. The KOHA review process should be one aspect of the continuous improvement process for organisations, rather than a ring-fenced event for the organisation.

3. Field visits are most usefully approached as opportunities to extend this reflective practice into a field-based context, and should not turn into whistlestop tours.

4. Organisations should be aware that the financial requirements of the KOHA scheme are based on good practice, as they result in transparency and accountability for all donors.

5. The special character of organisations can be the basis for encouraging donors to understand and support participatory community development.

6. A broad funding base is desirable for the ongoing viability of the organisation.

3 Lessons about organisational structure

A second group of lessons concerns the structure of the organisation itself.

3.1 Stages of organisational development

As organisations grow and develop, they go through typical stages. One framework of these stages is provided in Figure 1 below. It is important that all members of the organisation (volunteers, paid staff, governance board) are aware of the stages of the organisation, and the typical issues that arise at each stage. This will enable them to understand the stage they are at, to better facilitate structural change and integration of other development programmes with their organisational structure.

Figure 1 Community Organisations: Stages of Development
Source: http://www.community.net.nz/how-toguides/crk/starting/stages.htm

Stage	Typical Characteristics	Matters to Consider
Starting Out One person or a small group, passionate about a particular issue, "want to do something".	• often led by a visionary and/or strong, entrepreneurial person • high ideals - often quite fuzzy.	• where does this fit with other things that are going on in the community? • clarification of/agreeing on purpose of the group.
Becoming Structured Small group committed to making something happen.	• generally operates as a committee or collective • the "work" of the group is done by the group members (generally voluntarily) • minimal financial structures - often group member contributions, perhaps small grant (e.g. COGS).	• what structure best suits our purpose? • getting organised • assigning roles • agreeing on what needs to be done (not just the "high ideals") • establishing systems.
Growing An organisation that has outgrown its volunteer structure.	• the group inevitably faces challenges - "it's harder than we thought" • some members often doing the bulk of the work, leading to resentment and tension • the loose, voluntary structure is replaced by a more formal, structured committee or board • a co-ordinator, administrator, CE may be employed to do the tasks delegated by the committee/board • applying for funding for the organisation to support this increased operation.	• establishing good organisational processes • setting up governance, management and reporting structures • increased financial, legal and employment responsibilities • maintaining external relationships.
"Maturity" Group is functioning.	• systems and structures are formalised • generally a separation of governance and management roles • employs staff • ongoing evaluation of the group's effectiveness and relevance.	• challenge of keeping relevant (or getting stale) • learning/reflective practice • avoiding a loss of passion • business management responsibilities - financial, employment, premises, assets, contract management etc.
Completion "Our work is done" or refocus.	• things change, either externally (in the community) or within the group to indicate that it is time to wind up • some groups may reinvent themselves with a different focus rather than winding up • others may limp on, resisting the death knell, although they may be increasingly irrelevant to the community.	• evaluation - at both group and personal levels • dealing with grief - some members may not want to finish • celebration • tidying up and moving on.

3.2 Governance models

As the organisation changes, the different stages of the organisation also result in changing relationships between the management and governance arms of the organisation. A framework of different governance models is outlined in Appendix 2, in a paper by Garber (1997) which includes a number of questions which may be a starting point for organisational reflection on the relative positions of governance and management.

As outlined in the Garber paper, a commonly used model in non profit organisations is the Policy Governance Model, also known as the Carver Model as it was developed by John and Miriam Carver. This model is based around policies as the way the board influences the choice and administration of programmes while providing clear boundaries within which they must operate. A detailed explanation by the Carvers of this model (2001) is included as Appendix 3. The governance model under which the organisation is operating is a critical area for NGOs to consider, and all members of the organisation should understand it. The KOHA reviews have highlighted several areas in which organisations need to be clear:

- The role of the Chief Executive Officer (CEO) changes in the various governance models. In the Policy Governance Model the CEO is the (only) employee of the board, with delegated authority to ensure that the staff run the programmes within guidelines set down in limitations policies. The implications for KOHA are that lines of accountability for programme staff are to the CEO in this model, and responsibility for applications and reporting should be clearly understood (including policies for use of electronic signatures).
- The role of the board Chair needs to be well understood. In the Policy Governance Model the Chair ensures that the board's governance work is carried out, and is not regarded as the supervisor of the CEO, as in the Management Team Model.
- Responsibility for funding sources needs to be clear within the structure. In the Patron Model the board is mainly responsibility for fundraising, but in the Policy Governance Model this is a delegated task for the CEO. This means that donors do not control the organisation.
- A particular issue is that of advisory committees in areas such as finance or programmes. Carver and Carver (2001) note (in the section on Board Discipline, Mechanics and Structure) that in a Policy Governance Model such committees "constitute interference in the CEO's sphere of authority and accountability, and damage the board's ability to hold the CEO accountable." In this model any advice from the board to the staff on operational or management matters should be at the instigation of the staff, and able to be rejected. This has implications for the Programme Allocation Committees which are common in New Zealand international NGOs. Organisations who use such committees need to be clear how they fit into their governance and management structure, and what the lines of accountability are.

Our intention here is to point out that there are a range of different governance models, with issues for organisations to consider as given by Garber (1997), so that people in different parts of the organisation are clear about which model they are operating under and why that works best for the organisation.

Lessons

7 Organisations need to be aware of their "lifestyle stage", and engage in discussions at both staff and board level to help plan for the development of the organisation.

8 Organisations need to be aware of the model of governance operating in their organisation, and staff and board members need to engage in ongoing discussions

about the extent to which the current model best reflects the needs of the organisation, and make the changes necessary.

4 Lessons learned about programmes

A further group of lessons are more directly related to the programmes.

4.1 Visits to the field

Both SurfAid and TEAR Fund have procedures for non-staff members visiting their partners in the field, in order to protect the members of partner communities, particularly vulnerable community members such as children. Where such policies include police checks it is necessary to have all steps clearly outlined, including processes to ensure privacy of those undergoing the checks as well as the privacy and personal rights of the community members.

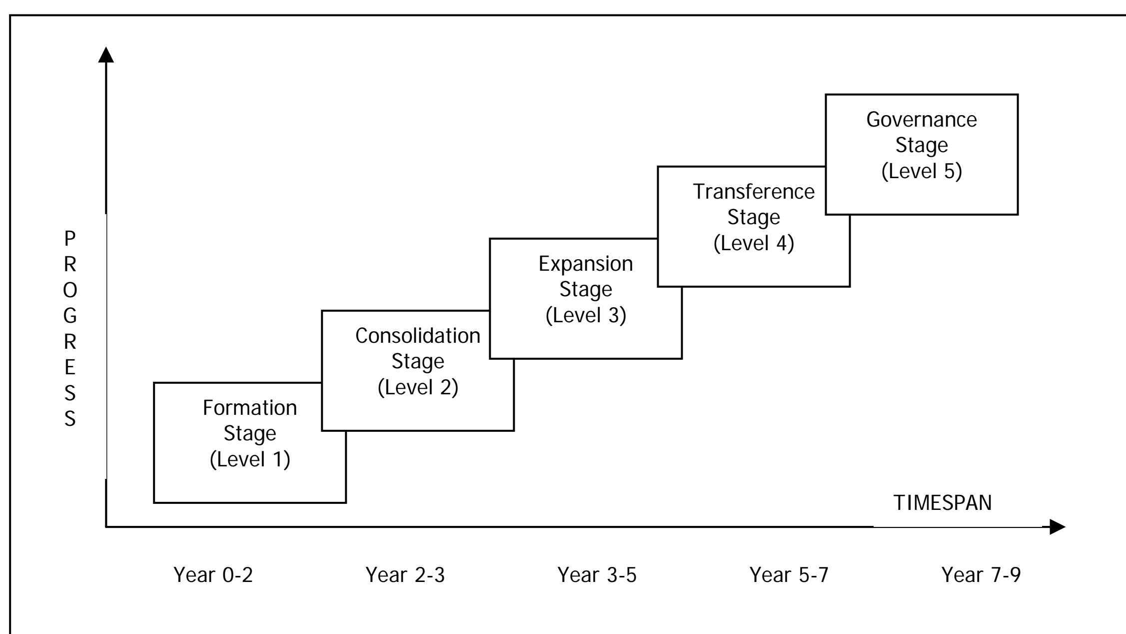
Another example of good practice is the Employee Assistance Programme used by TEAR Fund to support staff through personal counselling and advice. This is particularly important for those who have returned from situations such as humanitarian and disaster relief work as part of the HAF programme, where they may have been involved in traumatic situations. The professional support and counselling for staff in these and other stressful situations is effective as an expected and automatically scheduled activity, rather than one provided only on request.

4.2 Support for programmes

When organisations are involved in implementation, it is important that time is spent in the initial stages of the project building up relationships and a full understanding of the context. An example is provided from Saahasee, one of TEAR Fund's partners, which is an organisation focusing on social empowerment for the urban poor in India[7]. Saahasee's model of sustainable development is shown in Figure 2.

Figure 2 Intervention Strategy for Community Development

Source: Saahasee Training Module 1: *Community Organisation Programme Outline* (2009).



[7] For more information on Saahasee, see www.saahasee.org

The model has five stages, each of which takes around two years, resulting in about nine years of intervention. A feature of the strategy is the length of time spent in the early stages of intervention, in identifying key supporters and building relationships in the community. The model also includes a transference stage to try to ensure sustainability of outcomes. Further explanation of the components of the model are provided in Appendix 4.

The New Zealand NGO may need to ensure that technical skills are provided to field staff so that they are adequately equipped to carry out activities required such as monitoring and evaluation, e.g. computer skills; statistical training; design and analysis of surveys. They may also be able to provide advice to ensure that risks do not jeopardise the programme. Appendix 5 provides an example of technical input to Saahasee's micro-finance programme to mitigate the risk involved by ensuring that income from interest payments on loans to members exceeds expenditure on interest paid to members plus operating expenses. The viability of the federations which operate the micro-finance is central to Saahasee's projects and hence to TEAR Fund's work, and therefore a sound financial monitoring system is essential.

Lessons

9 Organisations should ensure that they keep up-to-date with best practice processes such as those needed to protect members of partner communities, and to support their staff involved in field work.

10 A strategy for community development should allow time in its early stages for identification and consolidation, and include plans for sustainability once the project or programme ends.

11 The New Zealand NGO may be able and should endeavour to ensure that technical advice is provided to staff or partner staff in the field to support the programmes.

12 Organisations supporting micro-finance need to be aware of the risks involved, and how these can most simply and effectively be managed.

APPENDIX 1

Terms of reference

Annual KOHA Organisational Reviews of Selected New Zealand Non- Government Organisations 2008/2009

Background

The KOHA Scheme, formerly known as the Voluntary Agency Support Scheme or VASS, was established in 1974 in recognition of the role of non-governmental organisations (NGOs) as partners in the delivery of international development assistance managed by the New Zealand Agency for International Development (NZAID).

The primary purpose of the KOHA Scheme is to improve the lives of people by addressing poverty and injustice internationally through overseas community development projects and programmes supported by New Zealand NGOs. This is achieved through:

- Providing funding for New Zealand NGOs involved in supporting partners providing high quality overseas community development projects and programmes;
- Supporting the continuation and development of a strong and effective New Zealand NGO sector involved in development through international partnerships; and
- Facilitating partnerships and linkages between the New Zealand community and New Zealand international development NGOs[8].

The annual KOHA organisational reviews normally assess four or five New Zealand NGOs that access KOHA funding each year to ensure that their development approach and practice is consistent with the requirements of the KOHA Scheme. Only two organisations have been chosen for review and field visits during the 2008/09 financial year and these are identified in the attachment to these terms of reference.

Reviews cover the period since each NGO's last organisational review, or, where there has been no previous review, for the last five years, or from the time when the NGO began accessing KOHA or VASS funds if it has been using funds for less than five years. For the first time this year, the organisational reviews will also consider the NGOs' engagement with the Humanitarian Action Fund (HAF) in addition to the KOHA scheme. The review period for the 2008/09 reviews begins on 1 November 2007 and ends on 30 June 2008. The terms of reference for the reviews should be read in conjunction with the KOHA Handbook, particularly the section entitled Review, Accountability and Learning and the section on the Principles and Criteria of the scheme, and also the HAF Handbook, which was designed as a complement to the KOHA Handbook.

Objectives of the 2008/09 KOHA organisational reviews

Objective 1 — To ensure that the development approach applied by NGOs being reviewed is consistent with the purpose, community development focus and criteria of the KOHA Scheme.

Objective 2 — To ensure that the NGOs being reviewed have appropriate capacity and systems and processes to support their KOHA development work. This includes appropriate organisational capacity, financial systems, and project identification, appraisal, management, monitoring and evaluation arrangements, as set out in the KOHA Handbook.

Objective 3 — For organisations that have undergone a previous review, to assess what progress has been made in implementing the recommendations of that review.

[8] KOHA Handbook, p 12

Objective 4 — To identify any areas where NGOs being reviewed need to make changes in order to comply with requirements of the KOHA Scheme and to make suggestions as appropriate for other practice improvements.

Objective 5 — For organisations that have used the Humanitarian Action Fund (HAF), to ensure that the approach, systems and capacity of the NGOs being reviewed are appropriate to the guidelines and criteria set out in the HAF Handbook.

Objective 6 — To identify general lessons from the organisational reviews that will be of interest to the New Zealand NGO sector involved in development work as a whole, and lessons on the operation of the KOHA Scheme for NZAID and the Programme Management Committee (PMC) of the KOHA Scheme.

Responsibilities
The review team will:

Stage 1: Preparation
- Meet with NZAID and the PMC for a briefing and decide on an action plan to carry out the two organisational reviews.
- Prepare the self-evaluation questionnaire and additional questions for the organisational profile and send them to the organisations being reviewed.
- Ask organisations to complete these and return them to the reviewers.
- Discuss and confirm dates for domestic reviews with PMC liaison person and each of the organisations being reviewed.
- Collect and read documents covering the review period from NZAID's and the KOHA and HAF Administrators' files on each organisation being reviewed.

Stage 2: Domestic visits
- Undertake a domestic review of each organisation being reviewed to consider whether it has appropriate capacity and systems to support its KOHA development work and HAF work where applicable.
- Provide oral feedback on preliminary findings to each organisation being reviewed.
- Discuss and confirm dates and arrangements for field visits.
- Ensure that each organisation being reviewed provides copies of in-depth reports on the projects to be visited before the field visits.

Stage 3: Field visits
- As required, identify and contract an in-country interpreter in consultation with the local NGO.
- Undertake field visits to the projects nominated by the PMC (including the communities they serve) to look at how the New Zealand NGO's work plays out in the field with particular reference to its development approach, the nature of its partnerships and the application of the KOHA and HAF criteria in the partnerships and projects.
- Provide oral feedback on preliminary findings to each partner visited, ensuring that they understand that it is the New Zealand organisation and not the project visited that is the subject of the review.

Stage 4: Report writing and discussion of reports
- As appropriate, consider the suitability of the organisation being reviewed to move to block grant status or to move to programme funding.
- Complete separate draft reports on each of the two organisations which identify compliance and practice improvement issues as appropriate.
- Submit drafts to the PMC for consideration and meet the PMC to discuss them.
- Incorporate PMC comments as appropriate and submit resulting drafts to respective organisations, seeking their feedback on factual errors in the report.
- Meet with each organisation being reviewed to discuss the draft report prepared on it. These meetings will usually be chaired by the Independent Chair of the PMC.
- Finalise reports and submit them to the PMC.

Stage 5: Lessons learned

- Complete a report on lessons learned for the New Zealand NGO development sector on generic lessons learned from the reviews.
- Complete a report on lessons learned for NZAID and the PMC on the operation of the KOHA Scheme and the HAF, with suggestions for improvements as appropriate.
- Submit draft lessons learned reports to the PMC for consideration and meet with the PMC to discuss the reports.
- Finalise reports and submit to the PMC.
- Brief PMC members for discussion of the lessons learned for the NGOs at the annual NZAID/NGO forum.

Other

- Provide periodic reports to the PMC on the progress of the review.
- Provide a financial progress report to each PMC meeting.

Outputs

- Expenditure reports for each PMC meeting.
- A presentation to the PMC in verbal or written form outlining the reviewers' activities and conclusions and commenting on any issues regarding the review process.
- A report incorporating the findings for each organisation (one report per organisation)
- A report to NZAID and the PMC on lessons for the effective operation of the KOHA Scheme and the HAF.
- A report to the wider NGO community on the generic lessons from the reviews.

Composition of organisational review team

The core team for the organisational reviews will consist of:

- two consultants
- a member of the PMC who will join the reviews as a full team member and be responsible for acting as the point of liaison between the review team and the PMC. When necessary and appropriate, there may be an additional team member who may be a second PMC member, an NZAID staff member or other person as agreed by the PMC. The specific roles and responsibilities of PMC or other New Zealand NGO representatives on the review team in any particular year will be covered by a separate short contract between NZAID and each of the representatives concerned.

NGOs being reviewed are encouraged to send their own representative with the review team for the visits to their projects in the field. Costs of accompanying the review team may be met by applying for Assessment Monitoring & Evaluation (AM&E) funding under KOHA - or for block grant NGOs, by allocating AM&E funding within the usual block grant requirements.

Attachment

New Zealand NGOs to be reviewed and projects to be visited in the 2008/09 KOHA reviews

1 Organisations and projects selected for review

Organisation TEAR Fund
Country: India
Project(s): Integrated Rural Livelihood Programme

Organisation: SurfAid
Country: Indonesia
Project(s): Mentawai Community Based Health and Malaria Control Programmes

2 In-depth reports:

The KOHA PMC will request each organisation under review to provide an in-depth report on those projects that are to be visited prior to the start of the domestic review.

APPENDIX 2

Governance Models: What's Right for Your Board

by Nathan Garber

Source: http://www.garberconsulting.com/governance%20models%20what's%20right.htm

Introduction

Nonprofit boards tend to follow one of five different approaches to governance. Each approach emphasises different dimensions of the roles and responsibilities of the board and each arises out of a different relationship between board members and staff members. These in turn reflect differences in the size, purpose, and history of the organization. I call these approaches the Advisory Board Model, the Patron Model, the Co-operative Model, the Management Team Model, and the Policy Board Model. I conclude with some questions to ask when you are considering changing your board structure.

Advisory Board Model

This model emphasizes the helping and supportive role of the Board and frequently occurs where the CEO is the founder of the organization. The Board's role is primarily that of helper/advisor to the CEO. Board members are recruited for three main reasons: they are trusted as advisors by the CEO; they have a professional skill that the organization needs but does not want to pay for; they are likely to be helpful in establishing the credibility of the organization for fundraising and public relations purposes.

Individual board members may be quite active in performing these functions and consequently feel that they are making a valuable contribution to the organization. Board meetings tend to be informal and task-focussed, with the agenda developed by the CEO.

The Advisory Board model can work well for a short time in many organizations but it exposes the board members to significant liability in that it fails to provide the accountability mechanisms that are required of boards of directors. By law, the board has the obligation to manage the affairs of the organization and can be held accountable for certain actions of employees and committees. It must therefore maintain a superior position to the CEO. Although the board is permitted to delegate many of its responsibilities to staff or committees, it cannot make itself subordinate to them.

Patron Model

Similar to the Advisory Board model, the board of directors in the Patron Model has even less influence over the organization than an advisory board. Composed of wealthy and influential individuals with a commitment to the mission of the organization, the Patron Board serves primarily as a figurehead for fund raising purposes. Such boards meet infrequently as their real work is done outside board meetings. Writing cheques and getting their friends to write cheques is their contribution to the organization.

Many organizations maintain a Patron Board in addition to their governing boards. For capital campaigns and to establish credibility of a newly formed organizations, Patron Boards can be especially helpful. They cannot be relied upon, however, for governance tasks such as vision development, organizational planning, or program monitoring.

Co-operative Model

For a number of different reasons, some organizations try to avoid hierarchical structures. The decision-making structure in such organizations is typically labelled “peer management” or “collective management”. In this model, all responsibility is shared and there is no Chief Executive Officer. Decision-making is normally by consensus and no individual has power over another. If the law did not require it, they would not have a board of directors at all. In order to be incorporated, however, there must be a board of directors and officers. The organization therefore strives to fit the board of directors into its organizational philosophy by creating a single managing/governing body composed of official board members, staff members, volunteers, and sometimes clients.

Seen by its advocates as the most democratic style of management, it is also, perhaps, the most difficult of all models to maintain, requiring among other things, a shared sense of purpose, an exceptional level of commitment by all group members, a willingness to accept personal responsibility for the work of others, and an ability to compromise. When working well, the organization benefits from the direct involvement of front-line workers in decision-making and the synergy and camaraderie created by the interaction of board and staff.

I have noted two areas of concern with this model. The first is that although the ability to compromise is an essential element in the successful functioning of this model, cooperatives often arise out of a strong ideological or philosophical commitment that can be inimical to compromise. The second concern is the difficulty of implementing effective accountability structures. At the time of implementing this model, there may be a high motivation level in the organization which obviates the need for accountability mechanisms. But, as personnel changes take place, the sense of personal commitment to the group as a whole may be lost. In the collective model, there is no effective way to ensure that accountability for individual actions is maintained.

Management Team Model

For many years, most nonprofit organizations have been run by boards which operate according to the model of a Management Team, organizing their committees and activities along functional lines. In larger organizations, the structure of the board and its committees usually mirrors the structure of the organization’s administration. Just as there are staff responsible for human resources, fund-raising, finance, planning, and programs, the board creates committees with responsibility for these areas.

Where there is no paid staff, the board’s committee structure becomes the organization's administrative structure and the board members are also the managers and delivers of programs and services. Individually or in committees, board members take on all governance, management and operational tasks including strategic planning, bookkeeping, fund-raising, newsletter, and program planning and implementation.

The widespread adoption of the Management Team model, arises out its correspondence with modern ideas about team management and democratic structures in the workplace. It also fits well with the widely held view of nonprofits as volunteer-driven or at least nonprofessional organizations. This model fits well with the experience of many people as volunteers in community groups like service clubs, Home and School groups, scouts and guides, and hobby groups. It also mirrors the processes involved in the creation of a new organization or service. It is no wonder then, that most prescriptive books and articles written between 1970 and 1990 (and many written more recently) define this model as the ideal.

Boards which operate under the Management Team model are characterized by a high degree of involvement in the operational and administrative activities of the organization. In organizations with professional management this normally takes the form of highly directive supervision of the CEO and staff at all levels of the organization. Structurally, there may be

many committees and subcommittees. Decision-making extends to fine details about programs, services, and administrative practices. When working well, two criteria tend to be used in the selection of members: their knowledge and experience in a specific field, such as business or accounting; or because they are members of a special interest group or sector that the board considers to be stakeholders.

While this model works well for all-volunteer organizations, it has proven to be less suited to organizations that already have professional management and full-time employees. Indeed, the deficiencies of this model have led to the current thinking in the field which differentiates "governance" (the practices of boards of directors) from "management" (the practices of employees) and the deluge of research, articles, and manuals on this topic.

The most important shortcoming is that all too frequently, it degenerates into what I call the Micro-management Team Model in which board members refuse to delegate authority, believing that their role requires them to make all operational decisions, leaving only the implementation to paid staff. The result is invariably a lack of consistency in decisions, dissatisfied board members, resentful staff and a dangerous lack of attention to planning and accountability matters.

Policy Board Model

As noted above, the need to differentiate the board's role from the manager's role arose from the failure of many organizations to maintain proper accountability at the highest levels and the dissatisfaction of many board members over the their inability to comply with the expectations of their role. They began to ask why, when they were such competent and accomplished individuals, they felt so ineffective and frustrated as board members. This led to an examination of the role of the board, the relationship between the board and the CEO, and the relationship between the board and the community.

The originator and most influential proponent of the Policy Board Model is John Carver, whose book, *Boards that Make a Difference*, has had a great effect on thousands of nonprofit organizations. All Policy Board Models share the view that the job of the board is: to establish the guiding principles and policies for the organization; to delegate responsibility and authority to those who are responsible for enacting the principles and policies; to monitor compliance with those guiding principles and policies; to ensure that staff, and board alike are held accountable for their performance.

Where the models diverge is the way these jobs are done and the extent to which strategic planning and fundraising as are seen as board jobs.

Boards operating under the Policy Board Model are characterized by a high level of trust and confidence in the CEO. There are relatively few standing committees, resulting in more meetings of the full board. Board development is given a high priority in order to ensure that new members are able to function effectively, and recruitment is an ongoing process. Members are recruited for their demonstrated commitment to the values and mission of the organization.

Which Model is the Right One?

There are a number of reasons for considering a change in your governance model:

- board members are dissatisfied with their roles or the way the board operates;
- your organization is experiencing problems that can be traced back to inadequacies in board structure or process;
- your organization is entering a new phase in its life-cycle;
- the CEO has left or is leaving;

- there has been a major turnover of board members;
- there is a crisis of confidence in the board or the CEO.

The descriptions above, of the various governance models, will give you an idea of the strengths and weaknesses of each model, but the difficulty in making the transition cannot be overstated. Changing models is like changing lifestyles. You must abandon well-established ideas and patterns of behaviour, replacing them with new ideas, roles, and activities that will seem confusing and unfamiliar. This type of change takes a considerable amount of time, energy, and other resources to accomplish. The answers to the following questions will help you to determine how badly you need to change your governance model and whether your board and organization have the necessary commitment and resources to accomplish it successfully. Take your time with each question, ensuring that each board member answers each question.

- Do we have a clear understanding and agreement on the purpose of our organization? Is it written down?
- What are the basic values which guide our organization and our board? Are they written down?
- How do we know whether the good our organization does is worth what it costs to operate it?
- What financial resources do we have and can we reasonably count on for the next few years?
- To what extent are board members expected to contribute money and labour to fundraising efforts?
- Do we believe that the organization should be run as a cooperative or collective - with staff participating along with board members in the governing of the organization?
- How much time is each board member willing to give to the organization in the next year (or until the end of their term)
- How much trust does the board have in the ability of the CEO to ensure that the organization operates in an effective and ethical manner?
- What are our expectations about attendance at board and committee meetings?
- What is the attendance record of each board member?
- How do we hold board members accountable?
- What is the record of each board member and committee with respect to meetings and results?
- How useful has each committee proven to be?
- To what extent do committees duplicate staff jobs? How satisfied are our members with the current board performance?
- Who thinks we should change our governance model?
- How much time and money are we willing to devote to increasing our own knowledge and skills to improve our performance as board members?
- How does our board deal with differences of opinion?
- How do members deal with decisions when we disagree?
- To what extent is it necessary for us (board members) to be involved in the delivery of programs and services, marketing, public speaking, etc.
- Who attends our Annual General Meeting? Why do they come?

- As board members, to whom do we wish to be accountable?
- How effective is our current recruitment method in getting excellent board members?

Take some time to consider these questions. The answers will tell you the degree of difficulty you will have in changing to a new governance model and where the problems lie. For additional information and for training and consulting services related to governance models, contact: Nathan Garber & Associates email: nathan@GarberConsulting.com

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APPENDIX 3

Carver's Policy Governance® Model in Nonprofit Organizations

by John Carver and Miriam Carver

Source: http://www.carvergovernance.com/pg-np.htm

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Over the last decade or two, there has been increasing interest in the composition, conduct, and decision-making of nonprofit governing boards. The board-staff relationship has been at the center of the discussion, but trustee characteristics, board role in planning and evaluation, committee involvement, fiduciary responsibility, legal liability, and other topics have received their share of attention. Nonprofit boards are not alone, for spirited debate about the nature of business boards has been growing as well. Whatever the reasons for this intense interest in governance, the Policy Governance model for board leadership, created by the senior author, is frequently a primary focus of debate.

The Nature of Governance and the Need for Theory

The Policy Governance model is, at the same time, the most well-known modern theory of governance worldwide and in many cases the least understood. It applies to governing boards of all types—nonprofit, governmental, and business—and in all settings, for it is assembled from universal principles of governance. In this article, we will focus exclusively on its use in nonprofit boards, though many descriptions of its application in business (for example, Carver, 2000a, 2000c) and government (for example, Carver, 1996a, 1997d, 2000b, 2001; Carver and Oliver, 2002) are available elsewhere.

Governing boards have been known in one form or another for centuries. Yet throughout those many years there has been a baffling failure to develop a coherent or universally applicable understanding of just what a board is for. While comparatively little thought has been given to developing *governance* theory and models, we have seen *management* of nonprofit organizations transform itself over and over again. Managers have moved through PERT, CPM, MBO, TQM, and many more approaches in a continual effort to improve effectiveness. Embarrassingly, however, boards do largely what they have always done.

We do not intend to demean the intent, energy, and commitment of board members. There are today many large and well known organizations that exist only because a dedicated group of activists served as both board and staff when the organization was a "kitchen table" enterprise. Board members are usually intelligent and experienced persons as individuals. Yet boards, as groups, are mediocre. "Effective governance by a board of trustees is a relatively rare and unnatural act . . . . trustees are often little more than high-powered, well-intentioned people engaged in low-level activities" (Chait, Holland, and Taylor, 1996, p. 1). "There is one thing all boards have in common . . . . They do not function" (Drucker, 1974, p. 628). "Ninety-five percent (of boards) are not fully doing what they are legally, morally, and ethically supposed to do" (Geneen, 1984, p.28). "Boards have been largely irrelevant throughout most of the twentieth century" (Gillies, 1992, p. 3). Boards tend to be, in fact, incompetent groups of competent individuals.

An extraterrestrial observer of board behavior could be forgiven for concluding that boards exist for several questionable reasons. They seem to exist to help the staff, to lend their prestige to organizations, to rubber stamp management desires, to give board members an opportunity to be unappointed department heads, to be sure staffs get the funds they want, to micromanage organizations, to protect lower staff from management, and sometimes even to gain some advantage for board members as special customers of their organizations, or to give board members a prestigious addition to their resumes.

But these observations—accurate though they frequently are—simply underscore the disclarity of the board's rightful job. Despite the confusion of past and current board practices, we begin in this article with the assertion that there is one central reason to have a board: Simply put, the board exists (usually on someone else's behalf) to be accountable that its organization works. The board is where all authority resides until some is given away (delegated) to others. This simple total authority-total accountability (within the law or other external authorities) is

true of all boards that truly have governing authority.

The Policy Governance model begins with this assertion, then proceeds to develop other universally applicable principles. The model does not propose a particular structure. A board's composition, history, and peculiar circumstances will dictate different structural arrangements even when using the same principles. Policy Governance is a system of such principles, designed to be internally consistent, externally applicable, and—to the great relief of those concerned with governance integrity—logical. Logical and consistent principles demand major changes in governance as we know it, because these principles are applied to subject matter that has for many years been characterized by a hodgepodge of practices, whims of individuals, and capricious decision making.

Such a change is a paradigm shift, not merely a set of incremental improvements to the status quo. Paradigm shifts are difficult to cope with, since they often render previous experience unhelpful; they demand a significant level of discipline to be put into effect. But if there is sufficient discipline to use the Policy Governance model in its entirety, board leadership and the accountability of organizations can be transformed.

It is important that we underscore this point. Using parts of a system can result in inadequate or even undesirable performance. It is rather like removing a few components from a watch, yet expecting it still to keep accurate time. Unlike the traditional practices to which boards have become accustomed, the Policy Governance model introduces an integrated *system* of governance (Carver and Carver, 1996; Carver, 1997).

Greater effectiveness in the governing role requires board members first to understand governance in a new way, then to be disciplined enough to behave in a new way. Boards cannot excel if they maintain only the discipline of the past any more than managers of this new century can excel if they are only as competent as those of the past. Does this ask too much of boards? Perhaps it does ask too much of many of today's board members. Yet there are other board members—or *potential* board members who thus far have refused to engage in either the rubber-stamping or the micromanaging they see on boards—who would rejoice in greater board discipline.

The Policy Governance model requires that boards become far more enlightened and more competent as groups than they have been. If that means losing some board members as the composition of boards goes through change, then the world will be the better for it. The Policy Governance model is not designed to please today's board members or today's managers. It is designed to give organizations' true owners competent servant-leaders to govern on their behalf.

Board as Owner-Representative and Servant-Leader

In the business sector, we can easily see that a board of directors is the voice of the owners (shareholders) of the corporation. It is not always apparent that nonprofit organizations also have owners. Certain nonprofits, such as trade associations or professional societies, are clearly owned by their members. Beyond such obvious cases of ownership, however, it is useful to conceive that community-based agencies in the social services, health, education, and other fields are "owned" by their communities. In neither trade associations nor community agencies is there is a legal equivalent of shareholders, but there is a moral equivalent that we will refer to as the "ownership." Looking at ownership in this very basic way, it is hard to conceive of any organization that isn't owned by someone or some population, at least in this moral sense.

The Policy Governance model conceives of the governing board as being the on-site voice of that ownership. Just as the corporate board exists to speak for the shareholders, the nonprofit board exists to represent and to speak for the interests of the owners.

A board that is committed to representing the interests of the owners will not allow itself to make decisions based on the best interests of those who are not the owners. Hence, boards with a sense of their legitimate ownership relationship can no longer act as if their job is to represent staff, or other agencies, or even today's consumers (we will use that word to describe clients, students, patients, or any group to be impacted). It possible that these groups are not part of the ownership at all, but if they are, it is very likely they constitute only a small percentage of the total ownership.

We are not saying that current consumers are unimportant, nor that staff are unimportant. They are critically important, just as suppliers, customers, and personnel are for a business. It is simply that those roles do not qualify them as owners. They are due their appropriate treatment. To help in their service to the ownership, Policy Governance boards must learn to distinguish between owners and customers, for the interests of each are different. It is on behalf of owners that the board chooses what groups will be the

customers of the future. The responsible board does not make that choice on behalf of staff, today's customers, or even its own special interests.

Who are the owners of a nonprofit organization? For a membership organization, its members are the owners. For an advocacy organization, persons of similar political, religious, or philosophical conviction are the owners. There are many variations. But for purposes of this paper, we will assume a community organization, such as a hospital, mental health or family service agency, for which we can confidently say that the community as a whole is the legitimate ownership. In this case, it is clear that in a community organization, the board must be in a position to understand the various views held in the community about the purpose of the organization. In short, if the community owns the organization, what does the community want the organization for?

Traditionally, boards have developed their relationships largely inside the organization—that is, with staff. Policy Governance demands that boards' primary relationships be outside the organization—that is, with owners. This parallels the concept of servant leadership developed by Greenleaf (1977, 1991), in that the board is first servant, before it is leader. It must lead the organization subject to its discoveries about and judgments of the values of the ownership.

We have thus far referred repeatedly to the board and very little to board members; that is intentional. Since we are now establishing the starting point for governance thinking, it is important that we start with the body charged with authority and accountability—the board as a group, not individual board members. It is the board as a body that speaks for the ownership, not each board member except as he or she contributes to the final board product. So while we might derive roles and responsibilities for individual board members, we must derive them from the roles and responsibilities of the board as a group, not the other way around. Hence, board practices must recognize that it is the board, not board members, who have authority.

The board speaks authoritatively when it passes an official motion at a properly constituted meeting. Statements by board members have no authority. In other words, the board speaks with one voice or not at all. The "one voice" principle makes it possible to know what the board has said, and what it has not said. This is important when the board gives instructions to one or more subordinates. "One voice" does not require unanimous votes. But it does require all board members, even those who lost the vote, to respect the decision that was made. Board decisions can be changed by the board, but never by board members.

The Necessity for Systematic Delegation

On behalf of the ownership, the board has total authority over the organization and total accountability for the organization. But the board is almost always forced to rely on others to carry out the work, that is, to exercise most of the authority and to fulfill most of the accountability. This dependence on others requires the board to give careful attention to the principles of sound delegation.

Since the board is accountable that the organization works, and since the actual running of the organization is substantially in the hands of management, then it is important to the board that management be successful. The board must therefore increase the likelihood that management will be successful, while making it possible to recognize whether or not it really is successful. This calls upon the board to be very clear about its expectations, to personalize the assignment of those expectations, and then to check whether the expectations have been met. Only in this way is everyone concerned clear about what constitutes success and who has what role in achieving it.

At this point, we wish to introduce the chief executive (CEO) role. (Policy Governance works in the absence of a CEO role, but the governing job is more difficult than with a CEO.) We are not concerned whether the CEO is called executive director, director-general, president, general manager, superintendent, or any other title. We are, however, concerned how the role is defined and we will use the term "CEO" to reflect the role definition we recommend.

We recommend that the board use a single point of delegation and hold this position accountable for meeting all the board's expectations for organizational performance. Naturally, it is essential that the board delegate to this position all the authority that such extensive accountability deserves. The use of a CEO position considerably simplifies the board's job. Using a CEO, the board can express its expectations for the entire organization without having to work out any of the internal, often complex, divisions of labor. Therefore, all the authority granted by the board to the organization is actually granted personally to the CEO. All the accountability of the organization to meet board expectations

is charged personally to the CEO. The board, in effect, has one employee.

It is important that boards maintain a sense of cause and effect with respect to their CEOs. The board creates the CEO; the CEO does not create the board. As the board contemplates its accountability to the ownership, it decides that creating a CEO role will be a key method in fulfilling that accountability. It is true that a founding father or mother will sometimes be the inspiration for a new organization, so that the board then created occurs after rather than before the founder. If the founder becomes the new CEO, it will seem that the CEO is parent to the board. Boards established in this way make a grave error when they mistake an accident of history for a proper view of their accountability. The CEO role, as such, is even in these cases created and governed by the board (see Carver, 1992).

Consequently, in every case, the board is totally accountable for the organization and has, therefore, total authority over it—including over the CEO. We can say that the board is accountable for what the CEO's job is and that the CEO do the job well. But we cannot say the CEO is accountable for what the board's job is and that the board do its job well. Unfortunately, much of current nonprofit practice supports this board-staff inversion. CEOs are expected to tell their boards what to talk about (provide agendas), to pull their boards together when there is dissension, and to orient new board members to their job. Nowhere else in an organization are subordinates responsible for the conduct of the superiors. Yet virtually all nonprofit literature on governance falls into this fallacy of CEO-centrism. "Thus, we argue, the board's performance becomes the executive's responsibility," say Herman and Heimovics (1991, p. xiii), a position we contend excuses and prolongs board irresponsibility.

We have said being accountable in leadership of the organization requires the board (1) to be definite about its performance expectations, (2) to assign these expectations clearly, and then (3) to check to see that the expectations are being met. Traditional governance practices lead boards to fail in most or all of these three key steps.

Board expectations—which are instructions—when they are stated at all, tend to be unclear, incomplete, or a mixture of whole board and individual board member expressions. Board members form judgments of staff performance on criteria the board (as a whole body) has never stated. Regular financial reports report against few or no criteria. Staff members can be seen taking notes of what individual board members say, as if it matters and as if they work for the board members rather than the CEO. Boards decide whether CEO's budgets merit approval when they have never stated the grounds for approval and disapproval. Virtually every board meeting—other than in Policy Governance boards—is testimony to carelessness of delegation and role clarity.

Traditional governance allows boards to instruct staff by the act of approving staff plans, such as budgets and program designs. When the board has approved a staff recommendation, doesn't the resulting approved document become a clear board instruction? Actually, it does not. For example, when a board approves the CEO's personnel policies or budget, does it really mean as an instruction every tiny segment of that document? Does every budget line and the smallest issues of a program plan become a criterion on which the CEO will be judged? Certainly not. Even the most micromanaging board does not go that far. But to what level of detail should the CEO treat the approved document as being a board instruction, therefore a criterion for evaluation? The tradition-blessed habit of board approvals is a poor substitute for setting criteria, then checking that they have been met. Board approvals are not proper governance, but commonplace examples of boards not doing their jobs.

What about the clear assignment of expectations to a person or persons? In conventional practice, boards' delegation to a CEO is frequently compromised by delegating the same responsibilities more than once or by delegating to around the CEO to sub-CEO staff. An example of the former is when a board charges the CEO and a board finance committee for financial decisions. Delegating around the CEO occurs either when a board gives instructions to the financial officer or other person who reports to the CEO or when a board itself judges the performance of sub-CEO staff.

Finally, in the absence of clear instructions or clear assignment, evaluating performance is an exercise in futility. Yet boards receive volumes of information that purports to monitor organizational performance. The sheer amount of information masks the fact that proper monitoring is still not occurring. Because monitoring performance is the systematic disclosure of whether board expectations have been met, monitoring that is fair and incisive can only occur after clearly stated and clearly assigned board expectations.

Using the Ends/Means Distinction

The point was made earlier in this paper that the board is accountable that the organization works. Clearly, the word "works" must be defined; defining it establishes the board's expectations for the organizations, the performance that will constitute success. The board need not control everything, but it must control the definition of success. It is possible to control too much, just as it is possible to control too little. It is possible to think you are in control when you are not. The zeal of a conscientious board can lead to micromanagement. The confidence of a trusting board can lead to rubber stamping. Defining success is a matter of controlling for success, not for everything. How can a board control all it must, rather than all it can?

Boards have had a very hard time knowing what to control and how to control it. Policy Governance provides a key conceptual distinction that enables the board to resolve this quandary. The task is to demand organizational achievement in a way that empowers the staff, leaving to their creativity and innovation as much latitude as possible. This is a question of what and how to control, but it is equally a question of how much authority can be safely given away. We argue that the best guide for the board is to give away as much as possible, short of jeopardizing its own accountability for the total.

What is there to control? In any organization, there are uncountable numbers of issues, practices, and circumstances being decided daily by someone. The Policy Governance model posits that all of these decisions can be classified as those that define organizational purpose, and those that don't. But the model calls for a very narrow and careful definition of purpose: it consists of what (1) results for which (2) recipients at what (3) worth.

Let us define these more fully: Some decisions directly describe the intended consumer results of the organization, for example, reading skills, family harmony, knowledge, or shelter from the elements. Some decisions directly describe the intended recipients of such results, such as adolescents, persons with severe burns, or low income families. Some describe the worth of the intended results, such as in dollar cost or priority against other results.

In Policy Governance, this triad of decisions is called "ends." Ends are always about the changes for persons to be made outside the organization, along with their cost or priority. Ends never describe the organization itself or its activities. For example, the professional and technical activities in which the organization engages are not ends. In a school, for example, which students should acquire what knowledge at what cost are ends issues. Ends are about the organization's impact on the world (much like cost-benefit) that justify its existence.

Any decision that is not an ends decision is a "means" decision. In that same school, the choice of reading program, teachers' credentials, and classroom arrangement are means issues. Most decisions in an organization are means decisions; some are very important means. But even if a decision is extremely important, even if it is required by law, even if it is critical to survival, unless it passes the ends test (designation of consumer results, which consumers, or the worth of consumer results), it is not an ends decision. Hence, means include personnel matters, financial planning, purchasing, programs, services and curricula, and even governance itself. No organization was ever formed so it could be well governed, have good personnel policies, a fine budget, sound purchasing practices, or even nicely planned services, programs or curricula.

The ends/means distinction is critical. Many boards claiming to use the model routinely confuse the Policy Governance meaning of ends and means, thereby sacrificing much of the benefit the model can give. For example, means is not synonymous with "administration" as some have misinterpreted (Herman and Heimovics, 1991, p. 44). Ends is not synonymous with "strategic plan," as others have misinterpreted (Murray, 1994). The ends/means distinction is not comparable to any other distinction used in management or governance; it is not parallel to policies/procedures, strategies/tactics, policy/administration, or goals/objectives. Indeed, ends may include very small and specific decisions about a single consumer, while means may include very important programmatic decisions as well as how a board constructs its committees. The ends/means distinction is exclusively peculiar to Policy Governance (with the possible exception of Argenti, 1993) and, therefore, is governed by Policy Governance principles. In Policy Governance,*means are means simply because they are not ends*.

Are ends the same as mission? Unfortunately, the answer is usually "no," because mission statements have not traditionally had to conform to the definition we have given ends. Consider the following mission statement of a mental health center: "The mission of the XYZ Center is to be a

responsible employer, providing quality mental health services in a cost-efficient manner." This statement—quite acceptable in traditional governance—is entirely means, no ends. This organization can fulfill its mission even if consumers' lives are not any better. In contrast, consider this broad statement of ends: "The XYZ Center exists so that people with major mental illness live productive lives in an accepting community at a cost comparable to other providers." In the latter, unless the targeted group are benefited in the required way, the organization is not successful, no matter how good an employer it is and no matter how much "quality" its services have. Notice that the cost component in the first statement is the cost of staff activity (services), while in the second statement it is the cost of consumer results.

No matter how central ends are to the organization's existence, however, because the board is accountable for everything, it is accountable for means as well. Accordingly, it must exercise control over both ends and means, so having the ends/means distinction does not in itself relieve boards from any responsibility. The ends/means distinction does, however, make possible two entirely different ways of exercising control, ways that—taken together—allow the board to have its arms responsibly around the organization without its fingers irresponsibly in it, ways that for the staff maximize accountability and freedom simultaneously. The board simply makes decisions about ends and means—that is, it controls the organization's ends and means—in different ways, as follows:

Using input from the owners, staff, experts and anyone in a position to increase the board's wisdom, the board makes ends decisions in a proactive, positive, prescriptive way. We will call the board documents thus produced "Ends policies."

Using input from whoever can increase board wisdom about governance, servant leadership, visioning, or other skills of governance and delegation, the board makes means decision about its own job in a proactive, positive, prescriptive way. We will call the board documents thus produced "Governance Process policies" (about the board's own job) and "Board-Staff Linkage policies" (about the relationship between governance and management). Both of these categories are means, but they concern means of the board, not the staff.

Using input from whoever can increase its sense of what can jeopardize the prudent and ethical conduct of the organization, the board makes decisions about the staff's means in a proactive, but negative and boundary-setting way. Because these policies set forth the limits of acceptable staff behavior, that is, the unacceptable means, we will call the board documents thus produced "Executive Limitations policies."

At this point in our argument, we have used the ends/means concept to introduce new categories of board policies. These categories of board policies are exhaustive, that is, no other board documents are needed to govern except bylaws. (Articles of incorporation or letters patent are required to establish the nonprofit as a legal entity, but these are documents of the government, not the board.) We will not discuss bylaws here, except to say they are necessary to place real human beings (board members) into a hollow legal concept (the corporate "artificial person") (Carver, 1995). However, so that we might continue to discuss the concepts represented by the words "ends" and "means," yet distinguish the titles of policy categories, we will capitalize Ends, Executive Limitations, Governance Process, and Board-Staff Linkage.

The negative policies about operational means requires further discussion. Here is the logic: If the board has established Ends and has determined through monitoring that those Ends are actually accomplished, it can be argued that the staff means must have worked. In other words, the means by which Ends were accomplished, though interesting, is of little importance to the board. This logic is largely accurate, but there is an important problem with it. Some means can be unacceptable even if they do work. Means that are effective, but still "unacceptable" are ones that are improper treatment of people or assets, that is, means that are imprudent or unethical. Consequently, although there is no reason for a board to control staff means decisions for reasons of effectiveness, there is reason to control staff means for reasons of prudence and ethics.

Whoever is directly responsible for producing ends must decide which means to use. That is, one must be prescriptive about one's own means. But the board is not charged with producing ends, only with defining them. It is to the board's advantage to allow the staff maximum range of decision-making about means, for skill to do so is exactly why staff were employed. If the board determines the means of its staff, it can no longer hold the staff fully accountable for whether ends are achieved, it will not take advantage of the range of staff skills, and it will make its own job more difficult. Happily, it is not necessary for the board to tell the staff what means to use. In Policy Governance the board tells the

staff or—more accurately—the CEO what means not to use!

Therefore, it is the board's job to examine its values to determine those means which it does not want in its organization, then to name them. The board can then tell its CEO that as long as the Ends are accomplished and the unacceptable means do not occur, the CEO can make all further decisions in the organization that he or she deems wise. It is in this way that extensive, albeit explicitly circumscribed, authority is granted to the CEO. Effectiveness demands a strong CEO; prudence and accountability to the board demand that the CEO's power be bounded.

This unique delegation technique has a number of advantages. First, it recognizes that board interference in operational means makes ends harder and more expensive to produce. Therefore, delegation which minimizes such interference is in the board's interest. Second, it accords to the CEO as much authority as the board can responsibly grant. Therefore, there is maximum empowerment inside the organization to harness for ends achievement. Third, it gives room for managerial flexibility, creativity and timeliness. Therefore, the organization can be agile, able to respond quickly to emergent opportunities or threats. Fourth, it dispels the assumption that the board knows better than the staff what means to use. Therefore, the board does not have to choose between overwork and being amateurs supervising professionals. Fifth, in this system all means that are not prohibited are, in effect, pre-approved. Therefore, the board is relieved from meticulous and repetitive approval of staff plans. Sixth, and perhaps most importantly, by staying out of means decisions, except to prohibit unacceptable means, the board retains its ability to hold the CEO accountable for the decisions that take place in the system.

Thus, when we say a board is responsible that its organization works, we simply mean that the organization (1) accomplishes the intended results for the intended people at the intended cost or priority—expressed in the board's Ends policies; and that it (2) avoids unacceptable methods, conduct, activities, and circumstances—unacceptable means expressed in the board's Executive Limitations policies.

Expressing Expectations in Nested Sets

We have established that Policy Governance boards express their expectations for themselves and for their organizations in four categories of board policies: Ends, Executive Limitations (the unacceptable means), Governance Process, and Board-Staff Linkage (the latter two are board means divided into two parts). The separation of organizational values into these categories is a major organizing principle for governing boards. These four categories completely embrace all possible organizational values (except those more pertinent to articles of incorporation/letters patent and bylaws)—no other policies or documents are needed. But another feature must be added to enable the board to address its desired level of specificity within these categories.

To ensure precision as well as completeness in policy-making, Policy Governance provides an additional principle, one which recognizes the varying sizes of issues and values. One Ends statement of a nonprofit board may be that persons without shelter should have adequate housing. Another may be that families with school age children should have housing that allows children of different genders to sleep in separate rooms. It is easy to see that the second example is more detailed, or "narrower," than the first. Notice that these two statements can be pictured as a set of nested bowls, in that the first is a broader value that includes the second one within it. Even more detailed choices exist within the second level, and so on to third, fourth, and more bowls until the specificity reaches a level where Mr. Smith rather than Mr. Jones gets a particular amount of shelter next week.

Now let's illustrate the "nested bowls" concept with an example of unacceptable means. One means value of a nonprofit board may be that the CEO not allow anything imprudent, illegal or unethical. Another may be that unbonded persons may not have access to material amounts of funds. The first example is a broader prohibition than the second, but less specific. Even more detailed "bowls" exist, of course, such as a further proscription against access to more than $5,000 on any one occasion or more than $8,000 cumulatively over a one year period.

Board values about ends and unacceptable means, as well as the board's own means, then, can be stated broadly, or more narrowly. The advantage of stating values broadly is that such a statement is inclusive of all smaller statements. The disadvantage, of course, is that the broader the statement, the greater is the range of interpretation that can be given to it. To take advantage of the fact that values or choices of any sort can be seen as nested sets, the Policy Governance board begins its policy making in all four categories by making the broadest, most inclusive statement first.

The board then considers the range of interpretation that such a statement allows, and

determines whether it is comfortable with the statement being given *any* interpretation that is reasonable. If the board would be uncomfortable delegating such a range, that is a signal that the board must define its words more narrowly, moving into more detail one level at a time. At some point, the board will have narrowed its words to the point that it can accept any reasonable interpretation of those words. Now the board has reached the point of delegation.

As an example, consider an Executive Limitations policy in which the board is putting certain financial conditions and activities "off limits." At the broadest level, the board might say: "With respect to actual, ongoing financial condition and activities, the CEO shall not allow the development of fiscal jeopardy or a material deviation of actual expenditures from board priorities established in Ends policies." That covers the board's concerns about the organization's current financial condition at any one time, for there is likely nothing else to worry about that isn't included within this "large bowl" proscription.

However, most boards would think such a broad statement leaves more to CEO interpretation—even if reasonable interpretation—than the board wishes to delegate. Hence, the board might add further details, such as saying the CEO shall not:

(1) Expend more funds than have been received in the fiscal year to date except through acceptable debt.
(2) Indebt the organization in an amount greater than can be repaid by certain, otherwise unencumbered revenues within 60 days, but in no event more than $200,000.
(3) Use any of the long term reserves.
(4) Conduct interfund shifting in amounts greater than can be restored to a condition of discrete fund balances by unencumbered revenues within 30 days.
(5) Fail to settle payroll and debts in a timely manner.
(6) Allow tax payments or other government ordered payments or filings to be overdue or inaccurately filed.
(7) Make a single purchase or commitment of greater than $100,000, with no splitting of orders to avoid this limit.
(8) Acquire, encumber or dispose of real property. And
(9) Fail to aggressively pursue receivables after a reasonable grace period.

A given board might go into less or more detail than in this example. But in any case, these principles stay intact: The language moves from a broad level toward a lesser level (we showed two levels in the example just given). The values that become policy are generated by the board's deliberations, not approved from a staff recommendation. The board, not the staff, decides what to say and where to stop. No matter where the board stops, the CEO is granted authority to use any reasonable interpretation of the board's words. The board can shrink, expand, or change the content of the policy at any time, as long as it does not judge performance retroactively.

This view of organizational issues—as values that can be specified moving methodically from the broadest to more narrow levels—allows the board to manage the amount delegated. The board is always clear about the authority being given away. The recipient of the board's delegation is always clear about the amount of accountability expected in return. There is a continuum of sizes of issues upon which, in Policy Governance, the board owns the broadest level, then successively smaller levels until it decides to delegate, after which it is safe to allow the remaining decisions to be made by others.

It is often observed by other governance authors that the distinction between what is board work and what is executive work is a naïve distinction. There is no universal rule, they contend, to mark where board policy stops and administration begins. Indeed, they are right as far as traditional governance is concerned, for the conventional approach to the board job is unable to make a policy-administration distinction that holds up in the real world. Policy Governance, however, introduces entirely different, more powerful conceptual tools— rigorous "one voice" clarity of delegation using descending levels of board control within the ends/means context. Even though there is still no predetermined or fixed point where board work automatically becomes executive work, each board using the principles we are describing can establish and, when necessary change, a distinct point of delegation applicable to its own organization. It is at that point, by the values of *that board*, for *that organization*, for *that time*, that governance stops and "sub-governance" begins.

To summarize the policy development sequence, Policy Governance boards develop policies which describe their values about Ends, Executive Limitations, Governance Process, and Board-Staff Linkage. Each policy type is developed from the broadest, most inclusive level to more defined levels, continuing into more detail until the board reaches the point at which it can accept any reasonable interpretation of its words from its delegatee. A step-by-step guide to such

development of policy documents is available (Carver and Carver, 1997). Ends and Executive Limitations are delegated to the CEO, who is held accountable by the board for accomplishing any reasonable interpretation of the boards expectations in these areas. Governance Process and Board-Staff Linkage policies are delegated to the board Chair, who is given the authority to ensure that the board governs in accordance with its own expectations of itself, using any reasonable interpretation of the policy language.

Board Discipline, Mechanics, and Structure

It is clear that the Policy Governance model requires a board to govern in an organized, planned and highly disciplined manner. Boards which are accustomed to talking about issues simply because they interest individual board members will find agenda discipline to be a major challenge, as will boards that rely on their staffs to supply their agendas. Not everything is appropriate for board discussion just because it is interesting or even because the staff wants the board to make the decision. Matters that have been delegated to the CEO should not be decided by the board or by board committees, for in making such decisions, the board renders itself unable to hold the CEO accountable.

Policy Governance boards know that their job must result in the production of three deliverables. (1) The first deliverable is a systematic linkage between the organization and the ownership. This is not public relations. The board connects with the ownership in order to ascertain the range of ownership values about the purpose of the organization. If the board is to make Ends decisions on behalf of the owners, it must know what the owners in all their diversity think. (2) The second deliverable is written governing policies in the four areas, using the principles we have described. (3) The third deliverable is the assurance of organizational performance, that is, performance which can be shown to be a reasonable interpretation of the board's Ends and Executive Limitations policies.

We use "deliverables" to mean job products, outputs, or values-added. Since these summarize the purpose for the board's job, producing these deliverables is what board meetings are for. In fact, the list of job outputs can be considered to be a perpetual job description, for every agenda is an instance of the board's working to perform its job. A board can decide how much, in what detail, and at what level of excellence it will pursue its perpetual agenda in the ensuing year. By doing so, it takes control of its own agenda, rather than allowing its agenda to be staff-driven. Establishing its own job description and the longterm or midterm agenda is recorded as one of the board's Governance Process policies. As we shall shortly point out, if the board sketches its annual agenda only broadly, the specifics will be filled in by the board Chair, who is charged with taking care of Governance Process details.

Accordingly, the board must plan meetings that enable and guarantee the production of these deliverables. Being entertained or intrigued by staff jobs is no substitute for the board's accomplishment of its own job. While the board is entitled to any information it wants, it must be aware that collecting information about staff activities and even conscientiously listening to many staff reports does not substitute for governance. Let us again reiterate that the board, not the staff, is responsible that a board's meetings fulfill its governance responsibilities.

In taking responsibility for its own performance, the board confronts the difficulty of acting responsibly as a group of equals. Since the board is by definition a group of peers, no one has authority over anyone else. The first action of a group of peers is to create a position of Chairperson—a first among equals—to help it stay on task. Although it is important that each board member continue to take responsibility for the board's group behavior, the board grants the Chair extra authority required to make rulings that keep the board on track. To stay consistent with the superior role of the board as a group, however, in Policy Governance the Chair only has authority that is within a reasonable interpretation of the board's policies on Governance Process and Board-Staff Linkage. Hence, the Chair is truly the servant-leader of the board (Carver, 1999).

It is usual for nonprofit boards to expect the Chair to supervise the CEO, but in Policy Governance there is no need for the Chair to have authority over the CEO. Only the board has authority over staff operations, and it exercises that authority through carefully crafted policies. It is not only unnecessary, but harmful for the Chair to tell the CEO what the board wants, for the board speaks for itself. Consequently, both the Chair and the CEO work for the board as a whole, but their roles do not overlap because they are given authority in different domains. The Chair's job is to see to it that the board gets its job done—as described in Governance Process and Board-Staff Linkage policies. The CEO's job is to see to it that the staff organization gets its job

done—as described in Ends and Executive Limitations policies.

Board Treasurers, as commonly used, threaten CEO accountability as well as the one voice principle. Treasurers are typically expected to exercise individual judgment about the financial dealings of the organization. But Policy Governance boards do not allow Treasurers to exercise authority over staff. (Rendering an official judgment of performance against one's own individual criteria has the same effect as exercising authority.) By creating a role with supervisory authority over the CEO with respect to financial management, the board cannot then hold the CEO accountable for that topic. The board should accept responsibility for financial governance (setting policy, then comparing performance) and require the CEO to be accountable for managing finances so that performance compares favorably to policy. The typical use of a Treasurer, when a Policy Governance board is required by law to have one, is to assist the board in making financial policy, never to judge CEO compliance against the Treasurer's own expectations. For more thorough treatment of the board's role in financial oversight, including commentary on the Treasurer and finance committee, see Carver (1991, 1996b).

In keeping with the "one voice" principle, the board can allow no structures or practices in which board members or board committees exercise authority over staff, any function of staff, or any department of staff. Typical nonprofit boards have a myriad of traditions that violate the one voice principle, such as placing the Chair between the board and the CEO. So it is common for boards to underestimate the amount of board member interference in operations. Such interference, even when well-intended, undermines the board's ability to hold the CEO accountable, for the CEO can argue that his or her actions were taken in compliance with a board member instruction.

Advice is a concept often carelessly used in nonprofit boards. This seemingly innocuous and well-intended practice can have the same deleterious effect as direct instruction by individuals or committees. It is common for the board, board committees, or individual board members to give advice to staff. But advice, if it is really advice, can be rejected. If staff has any doubt that advice given by the board or one of its components cannot safely be turned down, the clarity of board-to-staff delegation will be undermined. Policy Governance boards refrain from giving advice or allowing their members to give advice unless advice is requested. This protects the board's ability to hold the CEO accountable for his or her own decisions. The CEO and any of the staff can request advice if they need it, and they can request it from wherever they wish.

Traditional boards frequently create committees to assist or advise the CEO or staff, such as committees on personnel, finance, program, property maintenance, and other such staff means issues. In Policy Governance, such committees are illegitimate. They constitute interference in the CEO's sphere of authority and accountability, and damage the board's ability to hold the CEO accountable.

If, for example, the staff wishes to have an advisory committee, it is perfectly free to create one, then to use the advice or not as it deems wise. If, however, the board controls the mechanism of advice, a very different relationship between advisors and advisees is established. The wisest route is for the board to govern and leave advice and advisory mechanisms to the staff's own initiative. This way the staff gets all the advice it needs, role clarity and accountability are maintained, and board members are frequently spared unnecessary work.

Policy Governance boards use committees only to help the board to do its own job. Hence, a committee which explores methods of ownership consultation about Ends options is legitimate, as is a committee that studies possible sources of fiscal jeopardy that the board might address in an Executive Limitations policy. But a human resources committee that advises on or intervenes in personnel issues is not. To request advice or assistance with one's own job is acceptable and does not compromise accountability, but to foist help or advice on subordinates is not only unnecessary but destructive of accountability as well.

Policy Governance takes seriously the normally rhetorical assertion that boards be visionary and provide long term leadership. The discipline required for this challenge cannot be overstated. In fact, Policy Governance has been criticized as a "heroic board" model that is romantically idealistic! Yet boards do, in fact, have a critical job to do; no amount of helping staff can substitute for getting its own job done. Boards must persevere with the arduous, complex task of describing purpose and ethics/prudence boundaries. Forming those values into clear policies is far harder than telling the staff how to do its job. Speaking proactively for the ownership requires strong commitment not to

take reactive refuge in rituals, reports, and approvals.

This requires board member expertise relevant to governance, not management. Board members should no longer be recruited based on their having skills that mirror the skills of staff. Governance excellence requires members who can think conceptually and with a long term perspective, able to welcome a diversity of opinions but abide by group decisions. They must be able to speak on behalf of the ownership rather than merely from their own or some splinter group perspective. They must place organizational accountability above personal gratification. They must be able to view the board's task of assuring performance at arm's length—through setting expectations (using the ends/means principle and values viewed as descending "bowls"), delegating pointedly (to a CEO if possible), and monitoring. And it is to the function of monitoring or evaluation that we turn now.

Evaluation

Evaluation of performance is not extraneous to the board's job. It is as integral to the board s job as it is to any manager's. But, as we have shown, proper evaluation is impossible unless the board has first stated its expectations and assigned them to a specific delegatee. That is, evaluation of staff performance cannot occur appropriately unless the board has done its job first.

Moreover, if the board has a CEO, the results of proper evaluation of organizational success is the only fair evaluation of CEO performance. Since the CEO's job is to see to it that the organization meets the board's expectations, there is nothing more and nothing less to evaluate when assessing the CEO. Thus, the board's evaluation of organizational performance is the same as board evaluation of CEO performance (Carver, 1997a). Monitoring the evaluative data, as we shall see, is an ongoing activity—perhaps as frequently as monthly—and the board may wish to have a formal evaluation of the CEO once each year. However, the CEO's formal evaluation is only a summary of the accumulated monitoring data, not something in addition.

But let us consider the monitoring or evaluative information itself. Not all information is useful in monitoring performance. There are two types of information that are useful for other purposes, but not for monitoring: one is information for board decisions, the other is information simply to satisfy board members' casual interest. To examine evaluation or monitoring, we must first separate out these two types of information, for they do not qualify as monitoring against pre-established criteria.

First, information for board decisions is needed in order for the board to make wise policy in the first place. To create policies that are both realistic and demanding, boards require information from a variety of sources. These sources include staff, owners, experts, associations to which the board may belong, and others. This information is required for the board's own decision-making and does not judge staff accomplishment. Boards should invest a great deal of energy in gathering wisdom, spending perhaps half their time in becoming educated. So information for board decisions is essential for board performance, but not for monitoring staff performance.

Second, information for board interest is information about the organization or its environment that is not useful for board decision-making, but is of political, social, or technical interest to board members. This information does not include data that directly measure the degree of staff performance on board expectations, for that would qualify it to be called true monitoring information. This kind of information is incidental to the board's job of monitoring, but comprises most of what most traditional boards receive. There is nothing wrong with boards getting all the incidental information they want, but there is something very wrong with the delusion that they are at that time doing their job. In traditional governance, most staff reports, including most financial reports and reports that purport to be "evaluation" are incidental information simply because they are not data compared with previously stated board criteria.

Monitoring or evaluative information must speak *directly* to whether board expectations are being fulfilled. Consequently, it is always related to expectations set by the board in its Ends and Executive Limitations policies. This discipline not only makes it unnecessary for the board to trudge through the mountains of data staff are able to assemble, but it keeps evaluation fair. After all, it is only right that the CEO should know ahead of time the criteria on which he or she will be judged. Since monitoring information is only that information that describes actual performance compared to expected performance, it is evident that most reports collected, examined and approved by traditional boards constitute interesting information, but cannot be said to be effective monitoring reports. For example, boards that gravely approve (or accept) financial statements thinking they have thereby

exercised fiduciary responsibility are simply engaging in a meaningless ritual, for without criteria they don't even know what in those reports would have been disapprovable.

When monitoring is defined as we have done here, reports tend to be straightforward and transparent. Each board member can follow the link from board criteria to management data, for the report is not cluttered with incidental information. Monitoring is not nearly as difficult or time-consuming when boards know what performance they are expecting to see proven. Monitoring is thus more exact and, simultaneously, requires negligible board meeting time. In fact, we recommend that monitoring data be mailed to board members, thereby preserving valuable meeting time for board education and deliberation. Getting monitoring largely out of board meetings allows those meetings to focus on creating the future rather than reviewing the past, because inspection of the past is now safely routinized. For each Ends and each Executive Limitations policy, the board will have set a frequency and a method of monitoring, after which the process runs automatically. The choice of method will be a report from the CEO, judgment by a disinterested party (for example, an auditor), or—less frequently—direct board inspection of organizational practices or circumstances. It turns out to be rare that monitoring needs to be discussed in the board meeting, except for board members to affirm that they have received and read the mailed reports.

To illustrate the nature of what is reported in a Policy Governance monitoring report, we will use two items from an Executive Limitations policy already shown. In that policy, among other unacceptable means, the CEO was told he or she cannot (1) expend more funds than have been received in the fiscal year to date except through acceptable debt and (2) indebt the organization in an amount greater than can be repaid by certain, otherwise unencumbered revenues within 60 days, but in no event more than $200,000. Here is what the monitoring data might look like for these two provisions:
Item 1: Through the end of May, $3,694,800 has been expended. Receipts in the same period were $3,654,728. The shortfall of $40,072 was offset by a $60,000 short term loan. Item 2: Total debt is a 45 day working capital loan for $60,000 incurred on May 25. Revenues of $75,000 from our foundation grant, guaranteed by letter of May 5, are not otherwise encumbered and will be used, in part, to retire the debt prior to due date.

Notice that the data are rather bare-bones, only enough to answer the question, unobscured by incidental information. Board members should adopt a "prove it to me" attitude, so if the information submitted is insufficient to convince them, then more detail can be added. But the detail must be such that directly address the criteria. For example, what data prove the "not otherwise encumbered" statement? Obviously, the complexities of some organizations will cause the monitoring data to have more facets than in our simple example. Even then, however, the reported data should be as brief as possible and maintain a razor-sharp connection to the policy-based criteria being monitored. If more interesting, explanatory information, other than that directly addressing the criteria, is desired by the board or offered by the CEO, it should not clutter the monitoring report, but be distributed separately. Board members can know anything they wish, but they should never be in doubt about what is disclosure of performance on the board's criteria and what is not.

Using similar criterion-focused reasoning, when the board seeks to evaluate itself, it compares its actual behavior and accomplishment with the behavior and accomplishment it committed to in its Governance Process and Board-Staff Linkage policies (Carver, 1997b). Policy Governance boards tend to self evaluate on a frequent basis—we recommend every meeting—because a more sophisticated system requires continual tending.

Board Meetings

Because in Policy Governance the board is in charge of its own job, board meetings become the board's meetings rather than management's meetings for the board. Board meetings occur because of the need for board members to learn together, to contemplate and deliberate together, and to decide together. Board meetings are not for reviewing the past, being entertained by staff, helping staff do its work, or performing ritual approvals of staff plans. As a result, many board meetings may not look like traditional board meetings at all, but learning and studying sessions or joint meetings with other boards, particularly in communities where boards rarely talk with each other.

The CEO is always present, but is not the central figure. Other staff might be present when they have valuable input on matters the board is to decide. For community boards, with rare exceptions meetings would be open—not to please the law, but because a board

commitment to transparency. The board is not merely a body to confirm committee decisions, but the body that makes the decisions. Board committees might be used to increase the board's understanding of factors and options, but never to assume board prerogatives or remove difficult choices from the board table. In contrast to the old bromide that "the real works takes place in committees," in Policy Governance the real work takes place in the board meeting.

Board meetings should thus be more about the long term future than the present or short term future . . . more about ends than means . . . more about a few thoroughly considered large decisions than many small ones. And by their very character, meetings should demonstrate that the board's primary relationship is with owners, not with staff.

Summary

The Policy Governance model recognizes that any governing board is obligated to fulfill a crucial link in the "chain of command" between owners—whether legal or moral in nature—and operators. The board does not exist to help staff, but to give the ownership the controlling voice. The board's owner-representative authority is best employed by operating as an undivided unit, prescribing organizational ends, but only limiting staff means, making all its decisions using the principle of policies descending in size. The model enables extensive empowerment to staff while preserving controls necessary for accountability. It provides a values-based foundation for discipline, a framework for precision delegation, and a long term focus on what the organization is *for more than what it does*.

The Policy Governance model provides an alternative for boards unhappy with reactivity, trivia, and hollow ritual—boards seeking to be truly accountable. But attaining this level of excellence requires the board to break with a long tradition of disastrous governance habits. And it offers a challenge for visionary groups determined to make a real difference in tomorrow's world.

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APPENDIX 4

Saahasee's model of sustainable development

The detail in this model is specifically related to Saahasee's micro-finance projects. However, the structure is generic, recognising the inherent stages in a variety of programmes of different kinds, and with minor changes could be applied to many community development programmes.

I Initiation Phase - Promotional & Relational Mechanisms

- This is a rapport and relationship building phase that is done through personal interactions with the people in their home
- Community health and development activities are initiated
- Promotion and formation of thrift and credit groups based on voluntary membership
- Exposure visits of the elected leaders and members for conceptual clarity
- Organizing training program in regular meetings
- Building cooperative and democratic procedures
- Regular monitoring and evaluation by organization

II Consolidation Phase - Systemization

- Formation of a federation based on thrift and credit cooperative groups
- Election of federation leaders through secret ballot
- Operation of bank account, processing loans and monitoring repayments
- Regular monthly meetings for collection of thrift, disbursement of loan
- Education on cooperative basics and accounting systems
- Women participate in the daily activities of the cooperatives
- Trainings of the leaders to manage functioning of the federation]

III Expansion Phase - Strategic Development

- Formation of groups in the adjoining area as part of the formation of new federations
- Increased participation in the thrift and credit operation
- Initiation of enterprise activities in the federation
- Capacity building to tackle social issues; especially for abatement of social evils, such violence against women in home, dowry, alcoholism
- Linkage and networking with local administration, non-government organizations and financial institutions on socio-economic issues for their area with a collective effort of organization
- Women from the federation take an active role in the implementation of the activities

IV Transference Phase - Community Management

- Women from the federation manage and monitor thrift and credit operations
- Promotion of individual and collective enterprises in the community
- Provision of business counselling, capital and marketing support for community entrepreneurs
- Major responsibility borne by the federation leaders and coached by organization

V Governance Phase - Institutionalization

- Federation develops their own plan for the federation
- Dialogs with government, political and corporate officials and leader for community development
- Independent organization of social and economic development programs by the Federation through linkage and networking
- Successful and sustainable operation of socio-economic programs for community development by the Federations
- Organization acts as consultant to the Federation

APPENDIX 5

Methods of analysis for micro-finance organisation viability

By Stephen Haslett

Micro-finance projects are of different kinds, but one model has members of groups collecting money from members and paying one level of interest, while loaning to some members at a higher rate. Where not all money is loaned to members in this way, and some is either held at no interest or banked at a relatively low interest rate, care is needed to ensure "interest in" is greater than "interest out". The following provides an example, and indicates how comparatively simple monitoring of risk and viability is possible. The example links TEAR Fund's programme to its Indian partner Saahasee, and then to the women's Federations in the slums of Mumbai who save and loan their own money to members.

Federations are financially not part of either Saahasee and TEAR Fund. However the financial viability of all Federations is core to the success and support of the project by the local community, and hence the long term outcomes for Saahasee and TEAR Fund.

There are many checks and balances already in place; the Federations choose and employ a co-ordinator who has finance responsibilities, and the original structure for Federation finance was set up through consultation of Saahasee and the Federations with Citibank, which holds the Federation bank accounts.

The choice of co-ordinator is made by Federation members from among the women in the community who belong to the Federation. Nearly all of the members until training by Saahasee were illiterate and innumerate. Although co-ordinators the review team met showed remarkable understanding of accounting details, beyond the adding, subtracting and balancing required for the accounting, there are more subtle issues that could and perhaps should be monitored since the viability of the Federations is central to Saahasee's projects and hence to TEAR Fund's work.

For example, the members of the Federation save money and receive interest. Some members borrow money at a higher rate of interest. The remaining capital (which increases with further monthly savings) is invested in the bank at a lower rate of interest than is being paid to the women for their savings. It is consequently crucial that the interest earned exceeds the interest paid plus fixed costs (e.g. the Federation co-ordinator's salary). While viability can be obscured by further monthly savings, it is sufficient that the proportion of money on loans to members exceeds the ratio of interest paid to members for their savings to the interest rate members have to pay for borrowing. A formal justification for this result, an example using actual figures from one Federation, and a simple chart that would aid monitoring by Federation members are given below. Such measures are of central importance to rapid and sound financial monitoring, and given the necessary expertise there would be benefit in deriving other similar measures.

The Federations currently get around 4% per annum on deposits. They give interest to members on their balance at 3% per quarter, and charge on loans to members at 2% per month. The rate charged on loans to members is considerably less that is otherwise obtainable in poor communities in Mumbai.

To a first approximation, the annual rate of interest paid to members for deposits is 12%, and the annual rate of interest on loans is 24%. There are other measures of balance of assets (or working capital) possible, but a measure which is very sensitive to the current rather than the annual operating environment is the ratio of these two interest rates. As a guideline for financial viability, since income from interest for the Federation as a whole must exceed outgoing interest, the proportion of the Federations total deposits on loan must exceed the ratio of these two interest rates. The guideline currently given for this proportion is 60%.

A formal justification is given below. This calculation does not allow for operating costs for the Federation generated from interest payments, but this aspect is discussed in greater detail below.

An Example

By way of example, with interest given on deposits to members at 12% per annum, and interest received on loans this ratio is 12/24=0.5=50%, so that at least half the money must be out on loan to members to avoid an interest-based loss. The guideline of 60% exceeds this by 10%, so allows a maximum 10% of the interest received to be spent on overheads.

Simple monitoring

A simple way to monitor this month by month is to calculate the ratio of interest rates month by month, and plot this on the same graph as the proportion of money out on loan, noting whether the overheads exceed the difference between the proportion and the ratio.

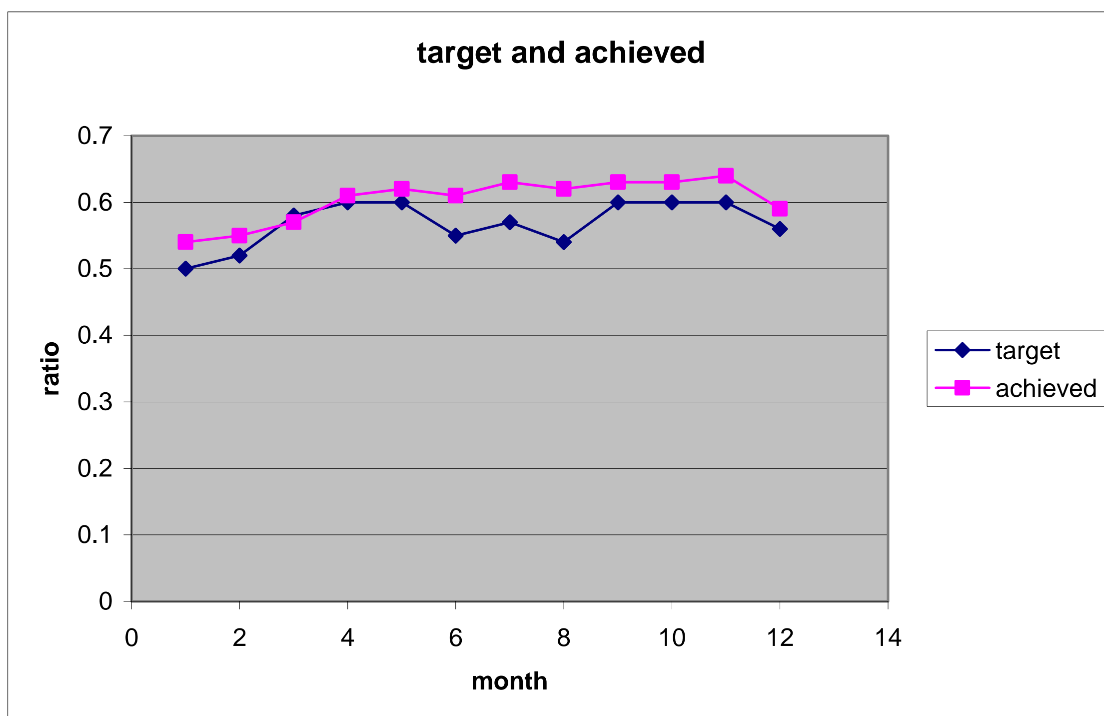
Put in steps, for each month:

1. Find the rate of interest paid on members' deposits by the Federation.
2. Find the rate of interest paid by members for loans from the Federation.
3. Divide the first by the second to give the *target* interest rate ratio.
4. Find the proportion of Federation assets (or working capital) out on loan to members. This is also the *achieved* interest rate ratio.
5. Check that the proportion of Federation assets (or working capital) out on loan to members (which is equivalent to the *achieved interest rate ratio*) exceeds the *target interest rate ratio*.

For example, for the data below, the *target* in the first month is 0.5, and the *achieved* is 0.54 so there is a proportion of 0.54-0.5 = 0.04 = 4% of assets (or working capital) available per annum for running costs before the Federation would be losing money. On a monthly basis that would be about 0.04/12=0.00333=0.333% of assets (or working capital) per month maximum that is available to cover overhead costs.

For a sequence of twelve months if the data were as below, the graph would be as follows:

month	target	achieved
1	0.50	0.54
2	0.52	0.55
3	0.58	0.57
4	0.60	0.61
5	0.60	0.62
6	0.55	0.61
7	0.57	0.63
8	0.54	0.62
9	0.60	0.63
10	0.60	0.63
11	0.60	0.64
12	0.56	0.59



Note that the achieved rate exceeds the target in all months except month 3 when the difference is small and remedied in later months, as required for financial viability of interest rate streams. For constant interest rates the target line would be simpler since it would stay at the same fixed level throughout, and be represented by a horizontal line.

Formal justification.

The formal justification for this procedure is as follows:

Let a = annual rate of return for deposits from the bank measured as a percentage

b = quarterly rate of return paid on member's deposits measured as a percentage

c = monthly rate of interest charged members for loans measured as a percentage

To annualise these rates, let:

b_0 = annual rate of return paid on member's deposits = $100[(1+b/100)^4-1]$ which is approximately equal to 4b, or four times the quarterly rate

c_0 = annual rate of interest charged members for loans, = $100[(1+c/100)^{12}-1]$ which is approximately equal to 12c, or twelve times the monthly rate

Let

p = proportion of Federation money in the bank account

so that

q = 1-p is the proportion of Federation money loaned to members.

Then for interest earned to exceed interest paid for the Federation, we require:

$$ap + c_0q > b_0 \qquad (1)$$

As a check using the example, p=0.4, so q=0.6 (i.e. 60% of the Federation's assets (or working capital) are loaned out to members), a=4%, b_0=4x3%=12% approximately, and c_0=12x2%=24% again approximately. Hence ap=4%x0.4=1.6, c_0q=24%x0.6=14.4, so ap + c_0q=16. Now b_0=12, so since 16 > 12, ap + c_0q > b_0 as required for financial viability. The difference corresponds to 16-12=4% of assets (or working capital), which is the upper limit for *annual* overhead expenditure in order to avoid a loss. Note that, because there is a mix of interest rates, since different rates are received from the bank and the loans to members, ap + c_0q=16% is simply the average interest rate received on assets (or working capital).

From equation (1), it follows that the financial viability requirement is that:

$$a(1-q) + c_0q > b_0$$

ie $$q(c_0-a) > b_0-a$$

ie

$$q > (b_0-a) / (c_0-a) \qquad (2)$$

From equation (1) a sufficient but not necessary condition, (since it takes assumes bank interest is zero, i.e. a=0) is:

$$q > b_0 / c_0 \qquad (3)$$

In words, this means that the proportion of assets (or working capital) on loan to members (q) needs to exceed the ratio of annual interest paid to them on deposits (b_0) to that charged them for loans (c_0).

Note that both results (2) and (3) do not make direct account of the overhead costs, and that ongoing monthly deposits from members can disguise a shortfall.

The maximum percentage of interest available for overheads is simply (ap + c_0q - b_0), which for the example data is again (1.6+14.4-12) = 4% annually of the assets (or working capital).

These mathematical results can be extended to multiple income streams and multiple outgoings, but these results, while useful, do not give such straightforward relationships. In any event, this additional complication is unnecessary here, as Federations currently have two income streams (bank interest and loans to members) and one outgoing expense (interest paid on members deposits), with the difference being used to offset direct costs such as the co-ordinator's salary.