Abstract

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Chait, Richard P., Ryan, William P., and Taylor, Barbara E. *Governance as Leadership: Reframing the Work of Nonprofit Boards.* Wiley: New York, 2005.

Introduction – Rethinking the Board

Over the years, CEOs in nonprofit organizations have shaped their role into something different—from day-to-day managers of the organization to full-fledged leaders that determine larger issues, like strategy and vision, which affect the long-term health of the organization. All the while, boards have remained the keepers of organizational values and retained ultimate responsibility for the organization's strategic direction. The growth of the CEO role is a good thing, but it requires a rethinking and redesigning the board.

As the CEO of not-for-profits has generally become a more active leader in the organization, the board has moved more toward management. This may seem strange given the common rule about boards not meddling in the day-to-day, but boards structure their committees around the skills of their members and these skills line up with the day-to-day needs of the organization. Board membership focuses on the advisement of management on such things as organization's finance, development, government relations, program evaluation, and customer/client relations. This arrangement creates tension between the CEO and the board when board members end up micromanaging the organization through their charge.

The model of governance presented in *Governance as Leadership* blends a rethinking of past approaches to governance with a new idea—generative governance—to give board members a new perspective on their role in the organization. Their skills and expertise are still relevant, but rethinking the role of the board can enhance their experience as a board member while increasing the board's value to the organization.

A Problem of Purpose

The problem with boards is not one of performance but of purpose. Board members are not ineffective because they are confused about their role, but because they are dissatisfied with their role. There are several areas where board members typically experience dissatisfaction.

- ***Some official work is highly episodic (p.17)*** – While the hiring and firing of CEOs and an active, deep questioning of mission only happen occasionally, some boards still meet regularly on these topics as if the occurrence of these events were regular. Effective fire departments don't spend all their time putting out fires, they spend time training and maintaining as well as doing work to prevent fires (p.17). Boards need to take from this example, lest they pack every meeting agenda with juicy strategic questions and forget to work in other areas, such as fundraising, advising the top team, and keeping contact with the community. This reality can be discouraging for board members who want to constantly focus on the juicy strategic issues.

- ***Some official work is intrinsically unsatisfying (p.18)*** – Remaining vigilant in overseeing management of the organization is difficult because the task requires constant focus on what the minimally acceptable criteria of managerial behavior is. The task also demands a punitive stance from the board. People rarely join boards to oversee the management of the organization, which can lead to disappointment when the task must be done.

- ***Some important unofficial work is undemanding (p.19)*** – Some of the board's most important unofficial work does not really depend on the efforts of individual board members, and therefore does not provide them with opportunities for meaningful engagement. For example, legitimacy is an important factor that the community uses to judge a nonprofit organization. Potential funders or clients might ask the question, "Who is on your board?" (p.21). If the right people are on the board, legitimacy is assumed. In this case, the board need only to meet in order to keep this legitimacy (p.21).

- ***Some unofficial work is rewarding but discouraged (p.22)*** – The rules about what board work is permissible and what work is not permissible are sometimes unclear. For instance, board work in the areas of "fund-raising, advocacy, and community relations" might be acceptable, but work in "human resource management and program development" areas might not be acceptable (p.22). The rule governing the amount and nature of the hands-on work board members can do is not random—it reflects the need for separation between management and board that preserves and guarantees autonomy for management. Yet in organizations that need help many board members find themselves crossing this line to provide needed assistance only to hear from other board members that they are "meddling" or "micromanaging" (p.22). Enforcing the rules about what is appropriate may lead to some dissatisfaction, especially when the organization seems to need and readily accept help from board members.

The Three Modes of Governance

Building a well-working board doesn't have to lead to dissatisfied board members. Board work can be exciting, engaging, and rewarding if the board embodies governance as leadership. Doing this involves blending three types of governance—fiduciary governance, strategic governance, and generative governance. The following diagram shows the relation between the three.

Figure 1 – Governance as Leadership: The Governance Triangle (p.7)

Type 1
Fiduciary

**Governance
as
Leadership**

Type 2
Strategic

Type 3
Generative
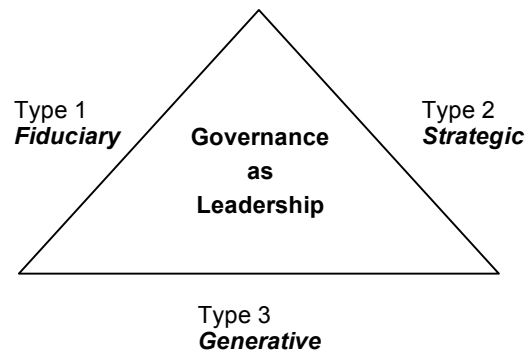
The Nature of the Three Modes

The three modes of governance reflect three different approaches to board involvement.

- *Type 1* – The fiduciary mode involves the "stewardship of tangible assets" (p.6)
- *Type 2* – The strategic mode involves "creating a strategic partnership with management" (p.7)
- *Type 3* – The generative mode involves "providing a less recognized but critical source of leadership for the organization" (p.7)

Building a better governance system involves a multi-modal approach to the board's work. A simple task-and-structure approach to governance, where boards operate in the mode of forming committees around the key business areas to ensure proper resource deployment, allows the board to match the operational needs of the organization but can over-simplify the reality of the organization— organizations are more than their organizational charts and job descriptions say they are.

A strategic approach, where boards operate in the mode of getting the organization from its current state to a more preferred state, offers a way for the board to help the organization understand and deal with the internal and external influences that affect its health. Using the two modes together, boards can set goals in strategic mode and make sure they are reached in the task-and-structure,

fiduciary mode. However, organizations are not merely the sum of their productive and logical aspects (p.78).

The third mode of governing—generative governance—requires that the board understand the values, judgments, and insights of the organization. This mode of governance does not lend itself to rigid processes—rather it is a complex activity that can be very rewarding. The three modes are described in more detail below, and using all three will challenge board members in engaging ways.

Type 1 Governing – Fiduciary

Fiduciary governing is the starting point for most board members. It is a mode of governance that leads the board to ask two fundamental questions—what do we have and how do we use it? Lately, boards have been making news when they have failed to realize the true answers to these fundamental questions—Enron and Tyco are two ready examples of bamboozled boards that failed in their fiduciary responsibility (p.33). This is an important mode of governance that, if done well, fosters accountability and promotes discipline throughout the organization. The tasks in this mode of governance speak directly to "the board's duties of loyalty and care" (p.34). In fact, the title "trustee," sometimes used to describe board members, is a label that references the title-holder's responsibility to protect the interests of others—in the case of nonprofits, the community at large, donors, and the clients that it serves (p.35).

Fiduciary tasks can provide leadership opportunities through budget revision and approval, for example. This type of action is called "fiduciary inquiry," and represents an evolution in the way boards approach fiduciary tasks. Below is an example of how the board can shift from oversight to inquiry and, as a result, get closer to governance as leadership.

Table 1 – Fiduciary Oversight to Fiduciary Inquiry—How the Questions Change (p. 38)

Fiduciary Oversight Questions	Fiduciary Inquiry Questions
▪ Can we afford it?	▪ What is the opportunity cost?
▪ Did we get a clean audit?	▪ What can we learn from the audit?
▪ Is the budget balanced?	▪ Does the budget reflect our priorities?
▪ Should we increase departmental budgets by 2%? Or 3%?	▪ Should we move resources from one program to another?
▪ Will the proposed program attract enough clients?	▪ How will the program advance our mission?
▪ Does a merger make financial sense?	▪ Does a merger make mission sense?
▪ Is it legal?	▪ Is it ethical?
▪ How much money do we need to raise?	▪ What is the case for raising the money?
▪ Can we secure the gift?	▪ How will the gift advance our mission? Does the donor expect too much control?
▪ Is staff turnover reasonable?	▪ Are we treating staff fairly and respectfully?

The Type 1 Board

"The Type 1 board is a bundle of type 1 governing practices set in concrete" (p.40). It structures committees around each key business operation (for example, HR, finance, fundraising, etc.) to oversee the organization's functioning in each area.

This type of governing can be effective for certain tasks, but its sole use "institutionalizes four flawed assumptions about organizations" (p.41).

1. *Nonprofits have bureaucratic features, but they are not bureaucracies (p.41)* – There are standard processes that become "bureaucratic features" (p.42) of the organization. However, the function of the nonprofit cannot be boiled down to a collection of bureaucratic features.

2. *Many leaders are agents in name only (p.43)* – "The Type 1 board imagines the board and the CEO in a principal-agent relationship," but the CEO continues to take up more of the leadership responsibilities of the organization (p.42). The CEO is not likely to see herself as or act like the board's agent.

3. *Boards are principals in name only (p.44)* – As CEOs take up more power, the Type 1 board resigns itself to a "policy-making" and advisory role (p.44). The Type 1 governance mode is limiting when the CEO is strong.

4. *Organizations are not closed systems (p.44)* – In type 1 governance, board members tend to undervalue the importance of external influences on the organization.

"Type 1 governing is essential," but a Type 1 board is inadequate to fulfill the organization's governance needs (p.49). The sole use of Type 1 governance can freeze a board into a role that limits leadership opportunities (and, consequently, engaging work for its members) and lead to the opposite of the desired

outcome—a board so focused on routine that they don't ask the right questions. They become less vigilant and more susceptible to fiduciary lapses as a result of their highly routinized, bureaucratic approach.

Type 2 Governing – Strategic

Strategy used to be a concern of the for-profit sector only, but now having a strategic outlook captured in a plan is a necessity for nonprofits. But nonprofits did not just import for-profit procedures, they translated them into their own language and incorporated them into their existing Type 1 framework. As a result, boards started treating fiduciary responsibilities and planning tasks the same. Formal planning questions remain the same year after year—and the board retains oversight of the plan without taking up a leadership role.

This Type 1 approach to Type 2 governance can lead to strategic plans being neither strategic nor a plan—a utopian portrait rather than a plan for action.

Below are some common problems with strategic governance.

- Strategic plans do not have the necessary traction to make change because they focus too much on a "blue-sky" future and not enough attention to the present. (p.57)

- Planners have not planned for organizational structure and procedure changes that are necessary to make the strategy happen. (p.58)

- The plans have very tight, defined goals—but an overall vague strategy. (p.58)

- CEOs negotiate strategic ideas with their directors, and go to the board for approval. As a result, the board gets no input into the ideas and board members become disengaged. (p.59)

- Change can come unforeseen and at a faster pace, rendering the last strategic plan useless. Or success can be found outside the strategic plan, for example with a surprisingly successful but "non-strategic" program. In either instance, people involved in the process of strategic planning begin to question its value and become less likely to want to do it again. (p.60)

The Type 2 Board

Governing in a way that promotes strategic thinking requires a shift from "brawn to brains" (p.65). Boards go beyond fiduciary oversight responsibilities in order to share their ideas with the CEO and the organization at large. When the CEO comes to the board to ask "What do you think?" the real question is "What is your thinking on the matter?" and not "Do you approve?" (p.65).

The board's shift from oversight to "thinking partner" produces three major changes.

1. *Board structure must be different (p.69)* – Flexibility is paramount. In order to do the kind of creative thinking, committees must break out of bureaucratic, Type 1 molds. Otherwise, dealing with issues that span administrative functions would be prohibitively difficult to do across several committees. This need lends itself to the use of task forces as part of a governance system.

2. *Board and committee meetings must change (p.72)* – Form should follow function. Board members should keep their eye on the big strategic idea and not allow meeting agendas to get clogged up with standard reports and presentations.

3. *The "right" communication and information changes (p.73)* – Two-way communication must happen between constituents and across boundaries inside the organization and out to generate the kinds of insights a strategic-thinking board needs. Ideas and information from these different places allow for comparison between organizations to get a more refined, clearer picture of what needs to happen to achieve the big strategic goal. Data is not collected to make management accountable, but rather as a means "to understand organizational performance relative to plans and peers" (p.74)

Table 2 – Comparing Type 1 and Type 2 Governance—Shifting Frames and Responsibilities (p. 75)

Type 1 Governance	Type 2 Governance
▪ Management defines problems and opportunities; develops formal plans. Board listens and learns; approves and monitors.	▪ Board and management think together to discover strategic priorities and drivers.
▪ Board structure parallels administrative functions. Premium on permanency.	▪ Board structure mirrors organization's strategic priorities. Premium on flexibility.
▪ Board meetings are process-driven. Function follows form. Protocol rarely varies.	▪ Board meetings are content-driven. Form follows function. Protocol often varies.
▪ Staff transmits to board large quantities of technical data from few sources.	▪ Board and staff discuss strategic data from multiple sources.

As stated above, both modes of governance are needed, but neither one is sufficient on its own. Even a combination of the two is not quite enough to achieve governance as leadership. A third mode, generative governance, is needed.

Type 3 Governance – Generative

Generative governance may be a novel concept for boards, but the board members likely engage in similar activities routinely in their "day jobs" (p.79). Type 3 governance is called "generative" because it is the *genesis* of the organization's work later translated into strategies, policies, plans, and tactics. "Generative thinking provides a sense of problems and opportunities above and

beyond what is normally experienced" (p.79). This new understanding is achieved by questioning the frame through which problems and opportunities are seen.

For instance, neighborhood watch programs were developed as a result of generative thinking. Strategy is often developed by thinking about what is going on now—point A—and the desired future—point B. Strategy fills the gap between the two. Generative thinking leads to a reconsidering of how point A is understood. If crime levels rise, it had typically been understood that point A is "not enough police" and point B is "an adequately-staffed police department." Researchers, policy makers, and police worked together to redefine the problem from one of insufficient police presence to insufficient use of untapped community resources (p.81). They found that people were willing to work with the police to patrol their own neighborhoods, and the program turned out to be very successful.

Engaging in generative thinking involves being aware of the routines that dominate process like planning and learning and breaking out of them once they become limiting. This is easier said than done—these routines are often so ingrained that we don't know what it feels like to not be subject to them. Yet most people know what it feels like when their perspective shifts, and suddenly the issue seems completely different and easier to deal with. Below are three steps to develop a new perspective on old issues.

1. *Notice cues and clues* (p.85) – Sometimes people get different or even contradictory senses of what the data means. This is evidence that people are using different cues to determine the meaning of the data. Instead of remaining locked in a disagreement, trace the perspectives back to their cues.

2. *Choose and use frames* (p.85) – People have a natural need to use a frame to make sense of a messy world. In the first step, you investigated the cues that led to different understandings of the problem. Frames shape the thinking process from the cue to the proposed solution—in short, they dominate the thought process of the group. Try on different frames to see the problem from different perspectives.

3. *Think retrospectively* (p.87) – Help inform strategy by telling the story of how the organization got to where it is at now. This does not meant that the past will dictate the strategy of the future, but that there are many ways to tell the story of the past, and forming a story that points the organization toward an ideal future and sets the "dominant narrative" (p. 88) of the organization. A successful narrative offers a coherent story that appeals to people's sensibilities, values, and traditions.

Generative Governing

Generative governance relies on a collaborative relationship between the board members and executives. Instead of a collaboration based on basic division of operational functions (Type 1 governance) or based on developing strategy (Type 2 governance), it is both of those plus a new collaboration that generates new ideas and approaches.

However, "the opportunity for generative thinking to influence actions and processes diminishes over time" (p.101). As people get more set in their ways, the ability to question the frame through which the problem is viewed becomes more difficult and new, fresh solutions become harder to generate.

Figure 2 – The opportunity for generative work decreases over time. Board involvement is at its lowest level when the opportunity for generative work is highest (p. 102 – 103)
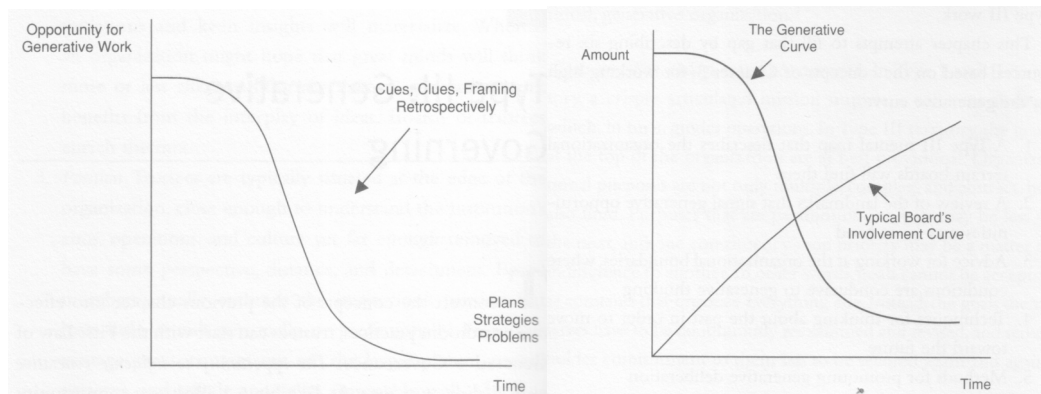
Unfortunately, boards are typically not involved in the process when the opportunity for generative work is the highest (p. 102). At the higher part of the curve, board members can feel uncertain about "what to do and where to start" (p.104).

Type 3 Characteristics of Organizations

At the height of the curve, the situation can seem like a "wilderness" (p.105) to board members—there is a strange combination of available data and "nonrational" inclinations toward certain solutions or outcomes. There are three features of the Type 3 organization (p.105 – 106).

1. *Goals are often ambiguous, if not contested* – Goals are "provisional at best" (p.105), and the purposes of the organization are multiple, complex, and fluid. As a result, goals cannot be seen as the "constant around which all else" is planned (p.105).

2. *The future is uncertain* – Strategic plans must be revisited often. Leaders cannot rely on planning to dictate all their action.

3. *Meaning matters* – The way a leader makes sense of facts matters as much as the facts themselves.

Recognizing when the organization could use generative governance is the first step to governance as leadership. There are several landmarks telling the board it should consider type 3 governance.

Figure 4 – Generative Landmarks (p. 107)

Landmark	Description
Ambiguity	There are, or could be, multiple interpretations of what is really going on and what requires attention and resolution.
Saliency	The issues, however defined, mean a great deal to many, especially influential people or important constituencies.
Stakes	The stakes are high because the discussion does or could invoke questions of core values and organizational identity.
Strife	The prospects for confusion and conflict and the desire for consensus are high.
Irreversibility	The decision or action cannot be easily revised or reversed, due as much or more to psychological than financial commitments.

Under these conditions, the board should help management understand and make sense of the problem rather than just approving management's solutions to the problem.

Methods for Generative Thinking and Governance

Below are several actions board members can take to put them in a position to better assist management in their sense-making efforts. These actions also assist board members to think generatively.

Working at the Boundaries

The typical boardroom is not a very hospitable place to undertake generative governing. It is isolated from both the organization it governs and the outside environment. One of the keys to successful generative thinking is crossing boundaries to stay connected to what is going on. Leaders are expected to occasionally manage by walking around to stay in touch with different parts of the organization. In generative governance the board is expected to do the same.

Working at the Internal Boundaries

Experiencing different parts of the organization is a great way to get a sense for cues and clues about the dominant frames active in the organization. This type of experience should not be focused on a particular issue or problem, but rather

board members should see what comes into focus when "walking around." Board members might attend routine events that serve the clients of the organization, or attend meetings where important issues are being discussed.
The idea is to gain exposure, not inspect the operations.

Some executives might be concerned at having board members moving around within the company, but the consequences are much worse if the board remains isolated (p.114). If they remained isolated, board members will try to make sense of the organization's work without having a clear idea of what is happening in the organization. A balance must be struck between "running rampant" in the organization and being isolated, and the board members and executives will need to agree about nature of the board members' walkabouts in the organization.

Working at the External Boundary

Leaders are expected to mingle with other leaders, attend conferences, and go to classes to guard against myopia. Likewise, experiencing other organizations can show board members "alternative frames" for viewing the same event (p.115). The board could meet jointly with the board of another organization and discuss mutually interesting issues, or meet with organizations that serve their clients after they move on (like companies that hire a college's students), or tour other similar organization's facilities to see how they do business (p.116). Any experience that allows board members to breathe the air of the larger business environment will do.

The Future in the Rearview Mirror

Often when using a fiduciary frame to look at the past, one looks to external audits or other process like Total Quality Management to evaluate what happened (p.116). When using a strategic frame to look at the past, one looks at benchmarks or scorecards to evaluate what happened (p.117). These ways of looking at the past require information to come to the board pre-packaged and pre-interpreted. If the board is allowed to make its own inquiries about the past, the potential for innovation increases.

Making "the Future in the Rearview Mirror" is a process of creating a meaningful narrative about the past. The idea is to brainstorm interpretations of the past that have consequence for the future of the organization. Below are some questions different organizations might use to brainstorm (p.117).

- Why was the college able to increase dramatically both the quantity and quality of applicants without additional offers of financial aid?

- Why did the aquarium fail to fulfill strategic priorities of advocacy and education?

- How did the school achieve national recognition in the sciences when that was not an explicit element of the formal long-range plan?

- Why do the organization's staff, board, and clientele remain homogeneous despite an explicit and pervasive commitment to diversity?

- What is the most important problem we tackled in the last year? What was the most important lesson we learned in the process?

These types of questions will give the board an array of possible solutions and strategies. After producing this array, the board builds a narrative to reflect the forward movement of the organization. For example, a university who had previously considered itself the "poor man's Harvard" might find itself attracting low achieving students, including a significant number of non-native English speakers who graduated from troubled high schools. While leadership wanted to keep the "Harvard" part of the narrative, they eventually rewrote the narrative of the organization to show that the school had always been a "school for underdogs." The change led them to embrace their students and encourage them to better themselves rather than lamenting the quality of student they were attracting. New student-related programs were developed and the students performed better as a result (p.119).

Changing the Way Issues are Discussed

"Robert's Rules of Order" do not lend themselves to generative thinking (p.119). In order to engage in discussions that will produce new ideas and frames, the rules of order have to be suspended. Generative discussions should have the feel of an off-site retreat where there is a playful relaxation of the rules rather than a typical board meeting (p.120). Below are four examples of activities that encourage playfulness and favor generative thinking.

1. *Assume action informs goals rather than vice versa* (p.122) – "Goals frequently emerge from action" (p.122). Board members can reflect on actions as a way to discover goals and strategies.

2. *Consider counterfactuals and hypotheticals* (p.122) – By considering different possible situations, the board can become clearer about their approach to situations. For instance, consider what would happen if the organization was organized as a for-profit entity. "What is profitable but not sustainable?" (p.122)

3. *Treat intuition as actuality* (p.123) – While boards should not govern by intuition, boards can use hunches as the foundation for generative ideas. Follow lines of thought not supported by data from the past. They may lead to new and valuable threads of development.

4. *Pose catalytic questions* (p.123) – Some examples: "What are three adjectives or short phrases that best characterize this organization? What will be most strikingly different about this organization in five years? What do you hope will be most strikingly different in five years? On what list, which you could create, would you like this organization to rank at the top?" (p.123)

Promoting Robust Dialogue

The generative thinking process will occasionally produce some bad ideas. In order to tell which ideas are good ones and which ones are bad, board members need to have open discussions about the ideas. Solutions and strategies need to resonate with the organization's leadership and bring about fertile discussions. Having open discussions may be a challenge—board members need to "value productivity and candor over harmony and congeniality" (p.124). In order for these discussions to happen, one board member must be able to raise doubts. If no one can raise doubts, the discussion will fall flat.

Summary

Using the three modes of governance together will create a new kind of role for the board and will create more dynamic, engaging work for board members. Here are some activities you can do to check in on your progress toward governance as leadership (p.130 – 131).

- Compare past and recent agendas. Does the board do more generative work now?
- Review, over the course of a year, where and when board members worked at the boundaries.
- Survey board members on whether the climate for robust discussion has improved or deteriorated.
- With input from senior staff, and perhaps even key constituents, spend a couple of hours a year as a board addressing questions.
  - Have we clarified (or muddled) organizational values and beliefs?
  - Have we clarified (or muddled) the organization's vision?
  - Have we discovered new ends as we have modified the means?
  - Have we reframed important problems?
  - What do we know now about governing that we did not know before?
  - What did we once know about the organization that is no longer true?
  - What did we once know to be true about the organization that now is?
  - Where did we miss the landmarks of generative issues and why?

Table 2 – Three Types of Governance: Distinctive Characteristics (p.132)

	Type 1 – Fiduciary	Type 2 - Strategic	Type 3 – Generative
Nature of organizations	Bureaucratic	Open System	Non-rational
Nature of leadership	Hierarchical	Analytical/visionary	Reflective learners
Board's central purpose	Stewardship of tangible assets	Strategic partnership with management	Source of leadership for organization
Board's core work	Technical: oversee operations, ensure accountability	Analytical: shape strategy, review performance	Creative: discern problems, engage in sense-making
Board's principle role	Sentinel	Strategist	Sense maker
Key question	What's wrong?	What's the plan?	What's the question?
Problems are to be	Spotted	Solved	Framed
Deliberative process	Parliamentary and orderly	Empirical and logical	Robust and sometimes playful
Way of deciding	Reaching resolution	Reaching consensus	Grappling and grasping
Way of knowing	It stands to reason	The pieces all fit	It makes sense
Communication with constituents	Limited, ritualized to legitimate	Bilateral, episodic to advocate	Multilateral, ongoing to learn
Performance metrics	Facts, figures, finances, reports	Strategic indicators, competitive analysis	Signs of learning and discerning