

Effective Governance

Using The Systems Thinking Approach®

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WHAT IS EFFECTIVE GOVERNANCE?

There are many definitions of governance, but from a Systems Thinking perspective, the most useful definition is “seeing to it that the organization achieves what it should and avoids unacceptable situations.”

The key words in this definition are “seeing to it”. Responsible governance is an arm’s length relationship to the actual work of the organization. **The primary focus of governance occurs in the helicopter view, holding the whole organization as its primary concern.** The governing body looks through the big picture lens of the future environment (Phase E, see model below), defining the purpose of the organization in terms that clarify the customer value to be achieved in the future (A), while at the same time defining the risk tolerance levels around prudence and ethics (A).

Governance is about translating owner expectations into actual results. This means defining (1) what the organization should achieve and (2) what should be avoided, primarily in terms of prudent and ethical behavior. Then, using the feedback loop (B), monitoring to see to it that the organization actually achieves those identified outcomes and lives the values. The management function is responsible for operational decisions inside those parameters (C) and for transforming inputs, using processes, structures and the culture to align and achieve the defined results without creating unacceptable situations (D).

Effective governance is proactive in defining outcomes/impacts and values. Once these factors are established, effective governance allows its system to work in its natural flow where the system

The Helicopter View

“A helicopter can hover at various altitudes slowly moving around to examine all sides of the situation.”

— Stephen Haines

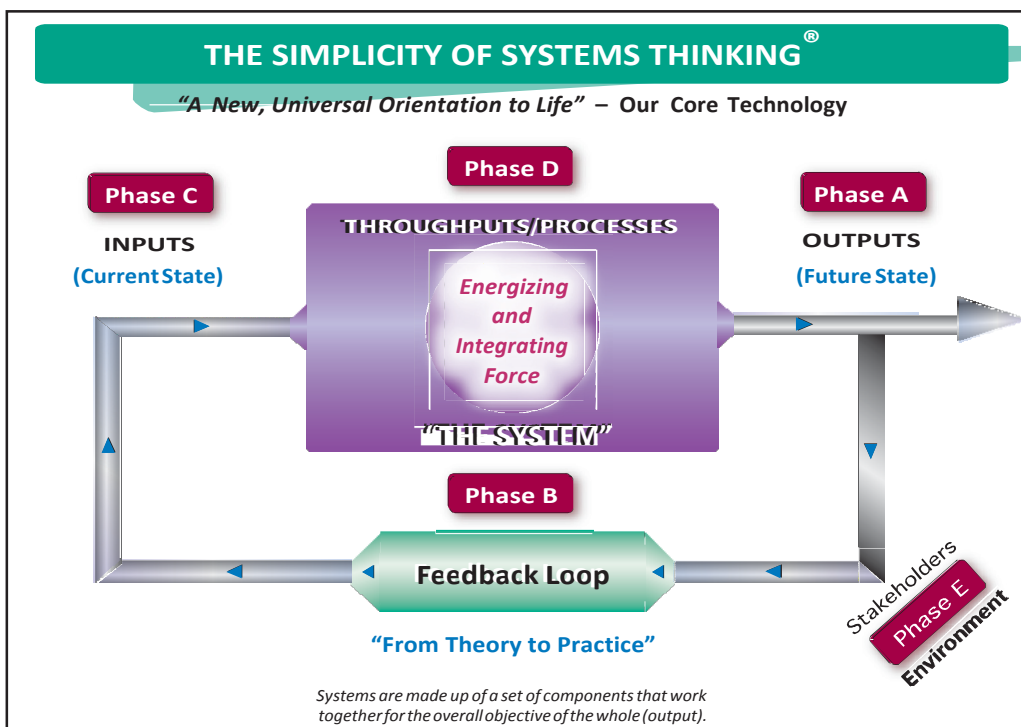
organizes to deliver on the specified direction. *Effective governance does not interfere with that natural flow, but it does hold the system accountable to deliver on the prescribed outcomes/impacts and to integrate the defined value system.*

THE SYSTEMS THINKING APPROACH® TO EFFECTIVE GOVERNANCE

Effective Governance at every level requires:

1. Knowing for whom you are working
2. Assuring the organization is effective in delivering relevant customer value
3. Assuring the appropriate balance between hierarchical control and operational freedom
4. Discipline in exercising commanding authority while properly empowering others
5. Fairness in judging performance
6. Predictable and trustworthy behaviors
7. Keeping it simple, yet integrated

Governance differs from management considerably. Governance focuses on the big picture (whole system), while management works to optimize the parts so that whole system performance is maximized. Governance of a system rises to the helicopter view, while management focuses on effective performance in the trenches.



But where are the boundaries between governance and management?

Governance involves itself with the broadest decisions in its realm of authority. Management has the authority to make strategic and tactical decisions inside the parameters set by the next hierarchical level.

Governance is necessary at every level of the Eight Levels of Living Systems. Each level has its governing authority. Just as natural systems have a hierarchy, so do our human systems. In the work team or group level (#4), the team leader is accountable for governing. In level #4A Inter-groups, the division leader is generally accountable for governing. In the total organization (level #5), the CEO is accountable for governing. In level #5A, accountability for governing is usually held by a Board of Directors.

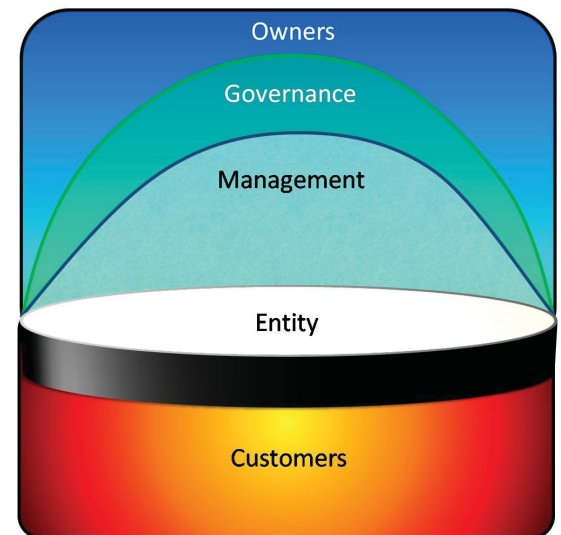
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There are key structural questions of governance at every level:

1. Who is the ownership group whose values and expectations influence our policy and decision-making? What do these owners value in terms of what we achieve and how we get there?
2. Who are the targeted beneficiaries/customers for our outputs?
3. What are the outcomes or impacts of the work we need to produce?
4. How will we know and measure success of our work?
5. What are the cost constraints to the organization for us to achieve our outputs?
6. What is unacceptable to the owners in how we approach potential solutions?
7. What is our accountability for outputs?
8. What is our accountability for appropriate enabling processes? For example, what is our accountability for integrity to a budget? For ethical treatment of staff? For treatment of our customers?

Effective governance also recognizes the importance of following laws:

Natural Laws of Living Systems	Relationship to Effective Governance
1. Holism	Governance sees the whole organization as its primary concern. It speaks with one clear voice to that organization.
2. Open Systems	Effective governance assures that the system is open. It gathers information about the future environment. It listens to the ownership to understand their expectations and to keep them posted on material developments.
3. System Boundaries	The boundaries between governance and operations are collaborative conversations, not a brick wall. Effective governance complements and integrates with operations to maximize results.
4. Input – Transformation -- Output	Effective governance sees to it that the inputs from the environment are transformed through integration with its unique content, processes, structures and culture. Outputs from this transformation yield customer value.
5. Feedback	Feedback stimulates learning and change. In effective governance, feedback enables transformation performance measurement. It is an essential part of accountability resulting from delegation of authority. Feedback begins with defining Key Success Measures and core strategic values. All activity is measured against those definitions.
6. Multiple Outcomes/ Goal seeking	Effective governance enables the pursuit of multiple goals through clear delegation. Those affected by an action have critical input into the most appropriate goals to achieve the ultimate customer value.
7. Equifinality of Open Systems	Effective governance recognizes there are many ways to achieve a desired outcome and, as a result, properly empowers others to define the “chosen” pathway to achieve that customer value. Flexibility here is key. Accepting any reasonable interpretation of the desired outcome is the standard for effective governance.
8. Entropy	Effective governance is the impetus to assure that “booster shots” are regularly injected through education, learning, feedback and accountability. Education and reflective learning from the feedback are keys to reversing the effects of entropy because they provide new and stimulating input that can transform each of us. “Buy-in” to an idea is relatively easy. “Stay-in” requires renewable energy from the open systems environment.
9. Hierarchy	Effective governance uses hierarchy appropriately to enable visionary leadership, future-oriented thinking, collaboration among stakeholders, self-organizing systems, and flatter, highly productive structures. The key is strategic consistency with operational flexibility.
10. Relationships/ Interrelated Parts	Effective governance works with its relationship to owners, to operations and with itself to optimize the fit of these interrelated parts in order to maximize the whole organization and achieve its vision.
11. Dynamic Equilibrium	Effective governance focuses on the mission and the meaning of the whole to create balance amidst dynamic environmental change. Effective governance addresses the internal culture to refine it and then to maintain it in dynamic equilibrium through standards of prudence and ethics.
12. Internal Elaboration	Effective governance mitigates the tendency toward internal complexity by modeling clarity and simplicity in its work. As it delegates its authority to others, effective governance sees to it that an appropriate balance is maintained. Simplicity wins the game every time.



BOARD GOVERNANCE

Keeping in mind the list of effective governance requirements above, let's apply this list to the role of a board of directors.

1. Ownership

The Board of Directors is a microcosm of the owners. It is established to act in the interests of the owners. Board governance is a unique position created to be the link between ownership and the operational organization. In systems thinking, the primary relationship of the Board of Directors is with the owners, not the CEO. Consequently, governance is a downward extension of the ownership rather than an upward extension of management. The Board works for the owners to assure that the organization achieves what it should and avoids unacceptable situations.

2. Governance Position

The Board holds a commanding leadership role through its governance position. With the ability to hire and fire the CEO, the Board of Directors holds authority that comes before all other authority in the organization. As a result of this “first authority”, the Board of Directors holds commanding authority in the organization and over the CEO. And yet, because the Board is a part-time authority, spending at most several days a year to do its governing work, it must properly delegate much of its authority in a manner that empowers others. Remember that governance is seeing to it that the organization achieves what it should and avoids unacceptable situations.

3. Ends for Customer Value

The Board assures the organization is effective through its process of defining the Ends to be achieved (A), after a thoughtful exploration of

the future environment (E). Informed by the future environment and the senior leadership team, the Board is the primary actor in defining the strategic positioning, values and rallying cry (A). The Board sets broad parameters in terms of Key Success Measures, but then hands the specific definition of Key Success Measures to the CEO (B).

4. Delegation by Balancing Control and Freedom

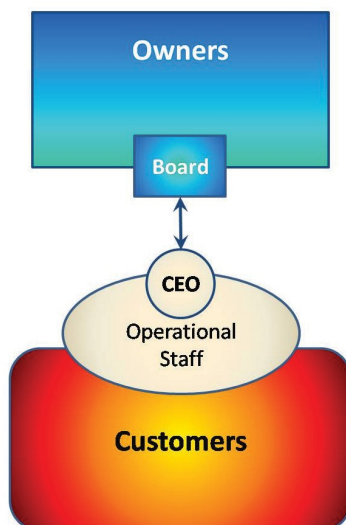
There is a direct relationship in the balance of control and freedom in the whole system. The more control, the more the Board limits the potential for agility, nimbleness and flexibility when opportunities arise, resulting in non-optimal results. When the balance is appropriate, the Board can control the entire organization with a few well-chosen restrictions that clarify what is unacceptable in terms of prudence and ethics. When control and freedom are in proper balance, the Board enables maximizing results without undermining accountability for operations.

5. Limitations with Any Reasonable Interpretation

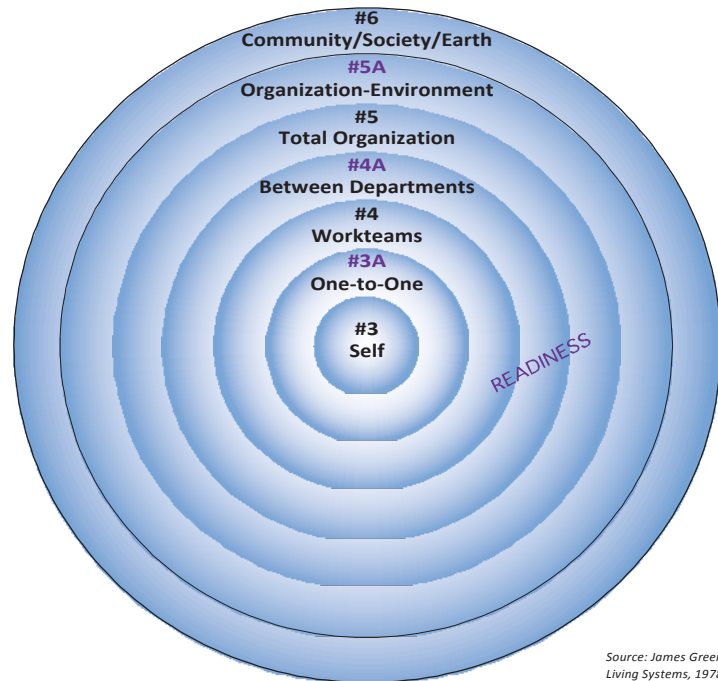
Controlling the organization with minimum restrictions can only be done through a governing system where the Board defines what is unacceptable at the broadest level of concern, but then allows the CEO to use any reasonable interpretation of those words in defining the key compliance measures to be monitored by the Board as a part of its feedback loop.

6. Governance Discipline

Effective governance is a disciplined sport. The board must set parameters for itself in terms of how far it will reach into the operational organization, preserving its governing time for the issues that truly belong to the Board and not the CEO. Boards do this through creating policies starting at the broadest, most inclusive level and as necessary continuing into more detailed levels that narrow the range of interpretation from higher levels.



SEVEN NATURAL RINGS OF REALITY



Source: James Greer Miller,
Living Systems, 1978, Rev.
1995

7. Fairness in Monitoring Performance

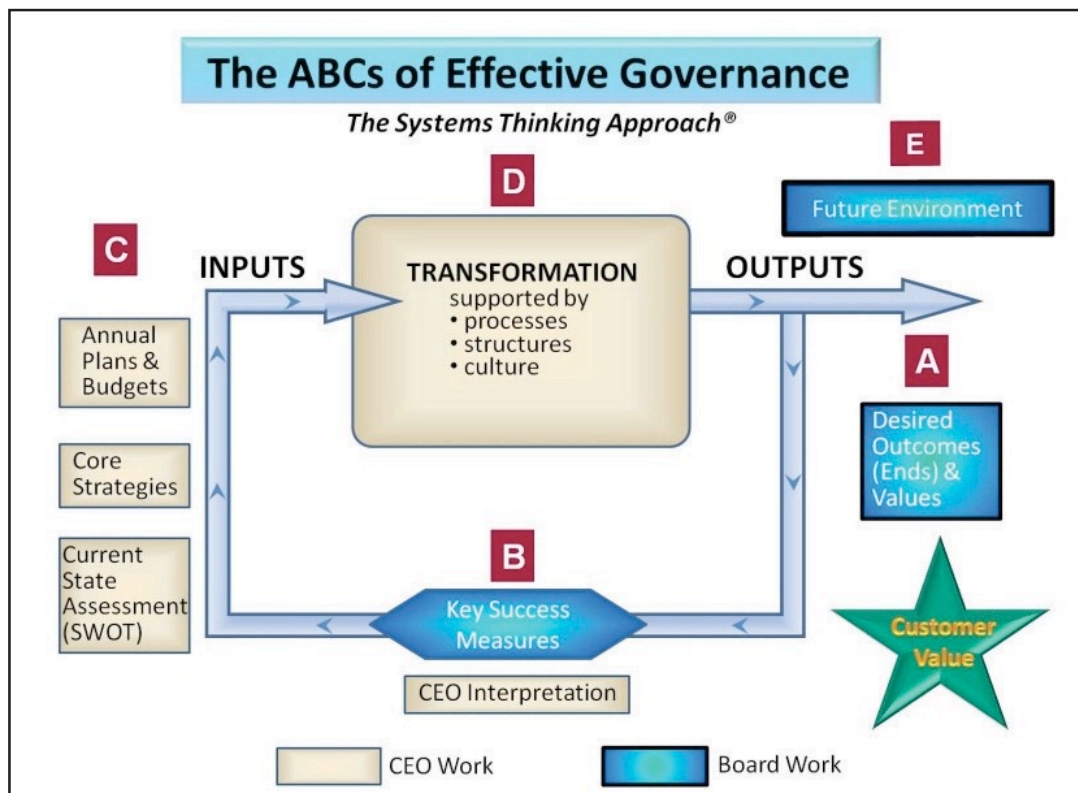
Fairness in judging performance begins with a discipline of not undermining accountability for performance. An undisciplined board undermines the accountability of the CEO through micromanagement and unpredictability, then holding the CEO accountable for decisions that were actually made by the Board. Fairness implies that the Board has defined all expectations in advance, requiring the CEO to identify reasonable interpretations of these expectations and corresponding measures of success. The Board monitors solely on basis of these expectations. Fairness implies that the Board defines what the organization should achieve (Ends) and what is unacceptable in terms of prudence and ethics.

8. Board Holism

Effective Board governance requires board members to work as a cohesive, unified team. The Board's authority is a group authority rather than a summation of individual authorities. The Board's relationship with the CEO is formed around accountability of the position, not around individual tasks. The Board's concern is for total organizational performance for which it holds the CEO accountable. The CEO is accountable to the full Board, not individuals on the Board.

9. Board Governing Process as Enabler

A key component in a systems-driven organization is to assure that the Board is acting as an enabling system for advancing the outputs of the organization. The Board itself needs to consider its own operating system that enables the organization to deliver on customer value. A Board needs to examine its practices to ensure there is: (1) clear definition of roles and boundaries, (2) clarity of delegation, and (3) rigorous monitoring for accountability of both the CEO and itself. Boards that are personality driven rather than systems-driven can create considerable upheaval in organizations. A systems-driven organization also needs a systems-driven board that is accountable to the ownership. Using a clear governance



model provides the Board an objective way to measure its own consistency with a systems approach to governance.

Surprisingly, there is little research that demonstrates the impact of governing on an organization. There is, however, a theory-based model for a systems approach to governance. This model is called Policy Governance®. Developed by John Carver it is the only coherent, comprehensive systems-based model of governance for Boards of Directors. The conceptual model has full external utility and can be applied at every level of governance in the organization.

SUMMARY ON EFFECTIVE GOVERNANCE

The Board of Directors is the body that begins this systemic pattern of accountability in the organization. The Board is accountable to the owners for the outputs of the organization and for integrity to its own rules of engagement. The CEO is accountable to the Board for the outputs of the operational organization in terms of Key Success Measures defined toward the achievement of Ends plus integrity of operations to the defined policies focused on enabling processes (administrative functions). All staff positions below the level of CEO are responsible for the delegations of authority that flow from the CEO, but the performance of the CEO is synonymous with the performance of the total organization.

Another in the Creating Customer Value™ Series.

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NOTE: This article reflects systemic governance theory as developed by John Carver applied to the Haines Centre Systems Thinking Approach® and General Systems Theory.