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# Principles of Governance

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Romania

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## Principles of Governance

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### **The effective board ...**

- ...has qualified members who are committed to the mission of the organization.
- ... knows and understands who owns this place, who runs this place, and who is responsible for this place.
- ... has selected and supports a capable and committed leader and knows when to make a change.
- ... understands its role in decision-making and its responsibility for oversight in anticipating a future that may have already happened.

- ... has established a functional committee structure, a work plan, and a process for selecting and retiring members, appointing leadership, and conducting assessments of the performance of the board and its individual members.
- ... is committed to the growth and development of those serving the organization and those receiving benefits from the organization.
- ... is committed to the growth of the culture of the organization as a moral community for the development of human character.

Serving as a member of the governance structure of an organization is a big job. It is time consuming. The process of exercising authority over others never produces a neutral result. It is either effective or ineffective, positive or negative.

### **Who owns this place?**

Some faith-based organizations have a special view of ownership based on the teaching of Psalm 24:1. This passage

reminds us that God, as the creator, is the owner of all He has created. We are to be stewards over what we possess or manage, not owners. The two organizations I have worked with that most closely reflect this view are Wheaton College and the Billy Graham Evangelistic Association (BGEA). In both cases the Boards believe they have a fiduciary responsibility for the growth and development of the ministry of the organization. As such, they have assumed that awesome responsibility of stewardship.

### **Who runs this place?**

The by-laws of most organizations stipulate that the organization shall be managed by the Board of Directors. In reality, it is the leader or CEO and his or her team that manages and runs the organization. The major work of a board involves establishing policies, oversight, and assessment. It becomes counterproductive if the board tries to get involved in

management. The same is true for any well-intentioned individual board member.

The board must be prepared to support and give advice, but not to meddle or get in the way. They are not leading the organization but supporting the leader of the organization as he or she responds to the daily and long-term issues of implementation.

### **Who is responsible for this place?**

The board is ultimately responsible for the effective implementation of the mission. They work through the leader or CEO of the organization, but at the end of the day the buck stops with them. *The board must assume the risk for doing whatever is necessary for the welfare of the organization.*

### **Selecting and Supporting the Leader**

The selection and support of a capable and committed leader of the organization is the most important responsibility of a board. If a wrong choice is made, the board must subsequently

make the painful decision to remove the leader. Both decisions are difficult. They require judgments to be made. There is a process that should be followed but I know of no formula that will always assure success.

Periodic discussions about succession planning between the board and the existing leader are often a helpful preparation for a future selection decision. They provide a framework for the timing of the decision and the possible availability of internal candidates. During my years of service on various boards, I have been actively involved in the identification and selection of twelve CEOs. Based on that experience, I believe there is a better chance of success if an internal candidate can be chosen. Knowing the candidate over a period of years and having the experience of understanding his or her successes and failures and their acceptance, or lack thereof, by the people of the organization provides that edge for a successful selection and transition.

Two examples of making positive selections of CEOs involve Wheaton College and the Billy Graham Evangelistic Association. During Wheaton's more than 150 years, there have been only eight presidents. This result reflects a long history of God working through a Board that is earnestly seeking His will in making the right decision "For Christ and His Kingdom."

The BGEA has been in existence for more than sixty years and has had only two CEOs. The transition from Billy to Franklin occurred during a time when I was serving as chairman of the executive committee. It was clear from Franklin's experience in leading Samaritan's Purse that he had executive leadership ability. It was also clear from his serving on the BGEA Board and in his personal conversations with me that he was committed to evangelism and to the ministry and mission of the BGEA.

## **The Board's Role in Decision-Making, Oversight, and Establishment of Policies**

Every decision has three dimensions: initiation, concurrence, and approval. One person may have the authority over all three of these dimensions. On the other hand, these dimensions of decision-making can be separated among two or more people or groups. With respect to the major decisions of an organization, it is important for the CEO and the board to have an understanding of their respective roles.

In most well-run organizations, the CEO has most of the initiating authority. The board's initiating authority is typically limited to the selection and removal of a CEO and the compensation structure for a CEO. In both situations, the board usually has the responsibility for all three dimensions of decision-making.

Oversight is a very important function of an effective board. As Drucker often said, "A board is just as effective as the CEO

wants it to be.” If the board is not getting the right and necessary information about the operations and directions of the organization, its oversight will be ineffective. This is why it is important for the board to participate with the CEO in agenda-planning that will cover several years and that will determine the items to be reviewed periodically.

### **Organized to Work**

Boards have a job to do. To be effective, they must be organized to do their work. Much of this work is done through its committee structures. The standing committees of a board usually consist of a governance committee, a compensation committee, a finance committee, and an audit committee. There also should be an agreed-upon process of selection and defined term of service for the officers of a board, which typically include a chairman, vice chairman, treasurer, and secretary. Terms of directors are generally limited to three years, although in the case

of Wheaton College they have effectively operated with terms of ten years.

Committee work is essential, but a board can also spend too much time listening to committee reports. As organizations grow more complicated, this is a tension point and often adds to the time board members have to sit through meetings. Some boards are increasingly using conference calls or Skype meetings to maximize the effective use of board members' time.

Is there an optimum size for an effective board? Drucker would say eleven to twelve. I've found that fifteen is a workable number. Wheaton College has operated effectively for more than 150 years with a twenty-person board.

Every board should have a defined method and process for the appraisal of the performance of the CEO, the performance of the board as a whole, and the performance of each board member. Tools are available to conduct all of these appraisals.

I have found that a “360” appraisal for the performance of individual members of the board is very effective in encouraging improvement in performance. It is also helpful in the rare case where you have to ask for the resignation of a board member. I have only had to do this twice. In both cases the consistent view of other board members was the telling factor in achieving an orderly resignation.

### **The Board and the Moral Tone of the Organization**

Can a board be effective and not assume responsibility for the moral tone and action of the organization? How can an organization fulfill its mission and also be a moral community for the development of human character? Why shouldn't this be part of the mission of every organization?

Raising the issues of morality and the importance of having an ultimate authority for determining right and wrong also raises the question of how God's authority should be reflected in the

operation of any organization or institution in our society. It is a question that cannot be ignored.

Have you not known? Have you not heard?

The Lord is the everlasting God

The creator of the ends of the earth.

He does not faint or grow weary

His understanding is unsearchable. (Isaiah 40:28)

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