The Many Failings of the Carver Board Governance Model

By Tom Coyne

A 2009 report prepared for the Ministry of Education of the Canadian Province of Ontario stated the following: “Although there is little research and limited experience to provide direction to school boards in exercising a mandate for improving student achievement, there is an emerging consensus that boards need to establish high expectations for student outcomes, establish strategic directions for improvement, assign resources to support strategies and hold the system to account by regular performance monitoring” (“*School Board Governance: A Focus on Achievement*”).

This description of the key elements in the school board governance process generally aligns with descriptions used in the private sector, such as this one, from the global organization of management accountants: “governance is the set of responsibilities and practices exercised by the Board and executive management with the goal of providing strategic direction, ensuring that objectives are achieved, ascertaining that risks are managed appropriately and verifying that the organization’s resources are used responsibly” (“*Enterprise Governance: Getting the Balance Right*”).

More specifically, virtually all board directors of private sector companies would agree that their governance responsibilities include the following:

- Set Direction
    - Establish purpose, goals and metrics
    - Evaluate and approve the organization’s strategy for achieving these goals, and critical decisions

- Allocate Resources
    - Approve the allocation of resources and decision power needed to efficiently and effectively execute and adapt this strategy (including hiring a CEO, regularly evaluating his or her performance, and providing advice and coaching as necessary)

- Control Risk
    - Set boundaries on acceptable organizational behavior
    - Ensure legal and regulatory compliance
    - Establish early warning indicators for strategy failure and emerging threats to organizational survival
    - Anticipate, assess, and approve actions in response to major threats to organizational survival and goal achievement

- Monitor Performance
    - Regularly review results against goals and boundary conditions, and intervene as necessary
    - Regularly review risk indicators and the continuing validity of key strategy assumptions
    - Verify the accuracy of reports and other disclosures to stakeholders

In contrast to most private sector companies' governance approach, Jeffco, like some not-for-profit organizations, has in the past used what is known as the Carver or "Policy Governance" model (when capitalized, it is Carver's trademarked scheme). John Carver is a clinical psychologist who devised what he calls the perfect approach to governance. He has built a significant business training organizations on how to implement his approach, and also teaching consultants how to do this.

There are a few key elements of the Carver model: (1) the Board is responsible for devising statements that describe the purpose/goals ("ends") the organization must achieve (hence Jeffco's "Ends Statements"); (2) the Board is responsible for hiring a CEO to achieve those ends; (3) the Board also devises "Executive Limitations" to constrain the behavior of the CEO and the organization; and (4) the Board is responsible for regularly and rigorously monitoring the CEO's performance compared to the Ends and Executive Limitations. Beyond that, the "means" by which the Ends are to be attained are wholly up to the CEO's discretion, and any attempt at Board oversight over them runs the risk of being met with complaints that this represents "micro-managing."

As you might imagine, Carver's approach has received a substantial amount of criticism. For example, in his paper "The Promise of Governance Theory: Beyond Codes and Best Practices", Carver states that "Corporate governance exists for one reason and one reason alone: to ensure that shareholders' values, as informed by knowledgeable agency, are transformed into company performance. To the extent a board fails in this, no matter how many other useful things it accomplishes, it has failed. To the extent it succeeds in this, no matter that it accomplishes nothing else, it has succeeded." To say that this view strikes many regulators, judges, corporate counsels, and providers of directors' liability insurance policies as unrealistic is an understatement. It is no wonder that the Carver approach has found few supporters on private sector boards (see, for example, "*The Policy Governance Model: A Critical Examination*" by Alan Hough)

More specifically, criticisms of the Carver model include:

(a) Its failure to drive organizational results unless the Board strictly monitors Ends achievement and Executive Limitation compliance, which many boards do not;

(b) Its tendency to create excessively powerful CEOs;

(c) Its overly rigid focus on the CEO being the board's only employee. For example, audit firms report to the board; similarly, in the case of a proposed management buyout, whistleblower complaints, or other potential conflicts between the board and management, prudence, case law, and regulation, particularly in a post Sarbanes-Oxley and Dodd-Frank environment, often requires boards to hire outside advisors;

(d) The limitations it imposes on a board's ability to offset management's natural tendencies towards overoptimism, overconfidence, confirmation bias, and conformity;

(e) Its tendency to weaken information flows to directors, and thus undermine their ability to perform their fiduciary duties;

(f) Its lack of transparency with respect to critical decisions, many of which are made by the CEO out of view of the board (and, in the case of school districts, out of view of the public as well);

(g) "The danger that the board and staff feel disconnected from each other. With the separation of roles, board members lose their understanding of programs because of a lack of program details. Staff may be resentful or dismissive of board decisions when they perceive the board as remote and without understanding of implementation realities. The staff may also feel disempowered to contribute to the direction of the organization";

(h) Its denial of the benefits of director expertise to organizations ("Great demands are made on management, who require the necessary skills to implement the ends set by the board. Weaknesses and inadequacies on either side can not be compensated for through mutual-help and team-like activities between staff and board, since it is thought that this would result in a confusion of roles"); and,

(i) Carver's rigid and damaging separation of ends (determined by the board) from the means (i.e, strategy and budget) of achieving them (determined by management), which is particularly unrealistic in a complex, uncertain, and fast-changing environment.

In sum, John Carver is a psychologist who tried to design the perfect system of governance. Unfortunately, as has been true throughout history of other attempts to engineer a social utopia, this one too has fallen short when confronted with reality.

Carver's approach to budgets is particularly problematic; as he notes, in a Policy Governance system, "typical budget approval [by the board] isn't necessary"…"the board doesn't do blanket approvals of budgets, program designs, or compensation plans." These are all within the power of the CEO to determine, subject to the negative constraints set forth in the Executive Limitations. Rather, Carver apparently believes that having a board define an Executive Limitation that tells the CEO to "avoid financial jeopardy" should provide sufficient guidance for acceptable resource allocation.

Frankly, I would not have gone so deeply into the unique views of Carver on governance if there were any evidence that the use of his model produces superior performance compared to other governance approaches. But there is not. Hence, it has been critical to go into the shortcomings of the Carver/Policy Governance model in some detail, as they seem to be an important historical contributor to the mix of serious problems facing Jeffco schools today.

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