IPGA Conference Out of the Book and into the Streets!

Prepared For:

**Linking the CEO's Strategic Plan to the Ends**

Presented by:

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Introduction
Policy Governance® is an operating system for the board that puts the board clearly at the lead of the organization. Once it has defined its expectations in its Policies the Ends and Executive Limitations are delegated to the CEO for performance and further interpretation. So now what does the CEO do with them?

While Policy Governance® does not prescribe how the CEO goes about fulfilling their delegated accountabilities, there are several logical conclusions that marry with classical strategic planning. This workshop is designed to teach CEO's (or others with the need to be concerned about organizational performance on the board's Policies) a framework for turning those policies into their Operational Strategic Plan.

A Caution
The delegation system of Policy Governance was designed for a specific application. Using it for an “off label” use may be valuable but if problems are incurred, please do not blame Policy Governance. It works just fine as an operating system for boards.

Special Note of Thanks
- We are all indebted to Dr. John Carver for developing this phenomenal system for improved governance and gifting it to the world. Many thanks are also due to both he and his wife, Miriam Mayhew-Carver, for pressing on and sharing so openly.
What is Strategy?

“What strategy is about making choices, trade-offs; it's about deliberately choosing to be different.”


Strategy is about making educated guesses as to what will achieve your desired results, trying them out, measuring the result against expectations, and then adjusting appropriately.

– Eric Craymer

What is the Board’s Proper Role in Strategic Planning?

“Boards should not do the actual long range planning.”

“By casting its Ends policies out toward the planning horizon, a board lays out those values on which the staff makes plans.”

“In short, a board’s job in long-range planning is not long-range planning itself, but exploration of vision.”

Kaufman’s Perspective – Distinguishing Organizational Purpose

What Piece of That Vision Do You Want to Be Responsible For?


Larger Shared Vision of a Preferred World
# How the Board’s Policies Cascade through the Strategic Process

<table>
<thead>
<tr>
<th>Board Policy Ends</th>
<th>Board Policy Executive Limitations</th>
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<tbody>
<tr>
<td>What benefit, for whom, what cost?</td>
<td>Unacceptable conditions &amp; methods.</td>
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<td><strong>Source: Carver Policy Governance®</strong></td>
<td><strong>Source: Carver Policy Governance®</strong></td>
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<td><strong>CEO Interpretation</strong></td>
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<td>Define as operational definition.</td>
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<td><strong>Big Picture</strong></td>
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<td>Business Model, Grand Strategy</td>
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<td><strong>Source: Strategy and Management Books</strong></td>
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<td><strong>Value Added Outputs</strong></td>
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<td>What outputs will be needed to fulfill the Big Picture?</td>
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<td><strong>Source: Strategy and Management Books</strong></td>
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<td><strong>Organizational Design</strong></td>
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<td>What does it look like in terms of strategy, structure, processes, systems</td>
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<tr>
<td><strong>Source: Strategy and Organizational Design Books</strong></td>
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<td><strong>Measures:</strong></td>
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<td><strong>Operational Tactics</strong></td>
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<td>Action plans, who does what.</td>
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<tr>
<td><strong>Source: Management Books</strong></td>
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<td><strong>Measures:</strong></td>
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Each Step is Aligned With and Ties Up to the Steps Above It
Process & Organizational Design ⇒ Value Added Outputs ⇒ Big Picture ⇒ CEO Interpretation ⇒ Ends and Executive Limitations
INITIAL STEP: Board Ends & Executive Limitations
- Determined and defined by the board

STRATEGY STEP 1: Determining CEO Interpretation
- What operational definition do you use when interpreting the board’s policies?
- Within the range of what they have given me, what definition do I choose?
- What is happening for the customer?
- What is our package of deliverables?
- What is a realistic level of attainment within potential resources?
- What is the value to the customer?

STRATEGY STEP 2: Determining the Big Picture (Start if New or Rethink if Existing)
- What is our business model?
- What is our overarching, core strategy?
- What can we be great at?
- How can we offer unique value to the customer?
- What sets us apart from others in our field?

STRATEGY STEP 3: Determining the Value Added Outputs
- What external outputs are needed (to add value to the customer and society)?
- What internal outputs are needed (support activities for creating the external outputs)?
- What competencies does that imply we need to have?
- What areas must we be effective in?

STRATEGY STEP 4: Determining the Organizational Design
In order to produce the Value Added Outputs that will accomplish our Big Picture…
- What types and numbers of staff are needed?
- What organizational structure will best work?
- What kind of business processes is needed?
- What systems of production, support, and control are called for?

STRATEGY STEP 5: Determining the Operational Action Plans
- What activities need to be taking place to create the ValueAdded Outputs?
- What activities will be routinely repeated and therefore best guided by policy or procedure?
- What activities, or possible activities, bring inherent risk or regulatory mandate and require operating policy?

THROUGHOUT: Are my interpretations, visions, etc. in line with the Executive Limitations? (The Executive Limitations serve as parameters and constraints on the choices that the CEO can make).
EXAMPLE – Mall Mart

BOARD ENDS
Sustainably higher than average returns for the investor with limited risk of losses.

STRATEGY STEP 1: Determining CEO Interpretation
- Net income for any year should be 10% greater than the average of similar businesses with similar risk.
- The business model must be designed to sustain itself, creating internal growth funded with Operational Cash Flow.
- Growth of year over year return on investment should exceed that of similar businesses with similar risks.

STRATEGY STEP 2: Determining the Big Picture
- Very low cost and high volume retailer serving the basic needs of lower and middle income Americans.
- We will meet minimum requirements for atmosphere but still within acceptable levels.
- We will grow initially by seeking locations that do not have competitors.

STRATEGY STEP 3: Determining the Value Added Outputs
- Purchasing Excellence – lower prices by leveraging volume and sharp buying, just enough variety to meet customers’ requirements for choice.
- Logistics and Management Information – flexibility and speed to meet demand and avoid stock outs.
- Asset Management – keep overhead low and use aggressive inventory management.

STRATEGY STEP 4: Determining the Organizational Design
In order to produce the Value Added Outputs that will accomplish our Big Picture…
- Large one stop stores connected by strong internal communication network.
- Warehouses strategically placed.
- Wider spans of control for managers and fewer management levels.
- Strong inventory tracking and ordering system.
- Strong cost control system and culture.

STRATEGY STEP 5: Determining the Operational Action Plans
- Use a greeter at the door.
- How to recruit and retain managers.
- How to train staff.
- How to advertise and market.

Interpretation as Operational Definition:
- Is a further definition of board policy which would allow the CEO or his/her delgatee to place the policy language into action and which:
o Further defines words offering alternative meanings or definitions
o Defines the meanings with enough specificity and clarity that persons other than the CEO would recognize it if they saw it and/or would be able to put it into action themselves and to independently test for its existence
o Includes a description of what the noticeable characteristics of the interpretation operating in the system would be, the expected measurable impacts, a defined method for measuring those impacts, and an expected level of attainment on the metric that the measurement method would yield
o Includes a justification or rationale which would allow persons other than the CEO to assess whether or not their interpretation was a reasonable representation of the board policy
o Includes a justification or rationale which would allow persons other than the CEO to assess whether or not the measurement system and the expected level of attainment of the metric are an appropriate way to measure the CEO’s performance of their interpretation
o States a standard of compliance using metrics which are obtainable and appropriate given the situation.
o Includes a justification or rationale which would allow persons other than the CEO to assess whether or not the expected level of attainment is reasonable.

Justification or Rationale
- Is evidence which the CEO provides to assist persons other than the CEO in assessing whether or not the definitions offered are reasonable representations of the board policy and whether or not the measurement system is an appropriate way to determine if the CEO’s interpretation is being achieved.
  o If available, an external objective third party standard is preferred
  o If the above is not available, then the opinion of an expert or professional in the field of the policy topic is appropriate.
  o If the above are not available, then an instrument (like a survey) to gather a shared opinion as to a standard definition or measurement system would likely serve the purpose.
  o If the above are not available, then a logical explanation by the CEO as to why the assessor should find it reasonable is better than no justification at all.

Data
Is the numerical and/or statistical metric that results when the named measurement system is calculated.
Measurement System
Allows a person other than the CEO to independently run the test and verify the same results. In order for this to be possible the Interpretation needs to include:
- Naming of the metric or evidential information which would prove measurable impacts.
- A listing of all variables which go into calculating or developing the metric with enough specificity that persons other than the CEO could actually find and replicate them.
- Describing the process by which the variables are processed in order to yield the metric (e.g. the formula)

Metrics
The measurable data which quantifies the performance being assessed when the measurement system is used.

Compliance
Is the determination of whether or not the CEO has met board criteria using a reasonable interpretation of the policy. This requires two tests:
- Is the assessor convinced that the interpretation is reasonable?
- Is the assessor convinced that the measurement system defined is appropriate to measure, that the standard of compliance is reasonable given the situation, and does the data show that the standard of compliance was met?

In addition, compliance must be assessed for each individual policy at both the global and lower levels (usually indicated by it having a unique identifying number)

Major Steps in Internal Reporting
1. Delegated Board Policy is a vision of the future in terms of outcomes, targeted populations and value measurement AND a set of unacceptable conditions or events (based on ethics, lawfulness and prudence).

2. CEO translates each policy into actionable strategic definition (Operational Definition) which can be measured.

3. CEO defines measurement system and a standard of compliance within that measurement.

4. CEO explains how the definition, the measurement system and the standard of compliance are all reasonable.

5. CEO provides data that illustrates actual measurement and compares it to the standard.

6. Board assesses whether interpretation is reasonable.

7. Board assesses whether measurement and standard of compliance are reasonable.

8. Board assesses whether the actual data presented shows compliance with the interpretation.
Policy 2.5.1 Financial Conditions and Activities

Policy Wording
The Executive Director shall not spend more funds than are available in the fiscal year.

Interpretation/Operational Definition
This policy is interpreted to mean that it is not okay to spend more than is available. For this policy I interpret funds to include both current revenues as well as any positive or negative carryovers from previous years which were not dedicated to other purposes. I interpret expenses to include all operating and capital expenses.

Revenues and Expenses are ongoing so a period of report must be defined. The appropriate period for this reporting is interpreted to be the current fiscal year-to-date as the policy was first in place as the first day of our fiscal year. Numbers will be drawn from the most recent audited quarterly financials.

Compliance will be shown when the numbers drawn from our audited books show that the Total Expenses (including operating and capital expenses) year-to-date subtracted from the Total Funds Available (revenues earned and received plus any operating net income from the previous year) year-to-date result in a positive number.

Justification
Consultation with our CFO and our Auditor confirm that this fits within standard practices for determining Funds and Expenses.

Measurement System and Metrics (Data)
There were no capital expenses as can be seen by the fact that there was no change in any of the capital accounts with the exception of depreciation. There was a positive carryover from the previous year of $2,000,000 as can be seen on the balance sheet increase in excess revenues under the equity accounts.

Copies of the Income Statement and Balance Sheet for this period are (attached/available for viewing upon request)

The calculation is:

<table>
<thead>
<tr>
<th>Funds</th>
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<tbody>
<tr>
<td>Carryovers (+/-)</td>
<td>$ 2,000,000</td>
</tr>
<tr>
<td>Earned and received revenues</td>
<td>$20,695,575</td>
</tr>
<tr>
<td>Total Funds Available:</td>
<td>$22,365,575</td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>Expenses</th>
<th></th>
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</thead>
<tbody>
<tr>
<td>Operating expenses from current year</td>
<td>$18,762,196</td>
</tr>
<tr>
<td>Capital expenses from current year to date</td>
<td>$ 0</td>
</tr>
<tr>
<td>Total Expenses:</td>
<td>$18,762,196</td>
</tr>
</tbody>
</table>

Calculation

\[
\begin{align*}
\text{Total Funds Available} & = \text{$22,695,575} \\
\text{Minus Total Expenses} & = \text{$18,762,196} \\
\text{Resulting Number} & = \text{$3,933,379 (positive)}
\end{align*}
\]

Statement of Compliance
I report compliance.
Policy 1.0 Ends

Policy Wording
People with addictions and/or mental health illnesses in Danforth County will have a quality of life similar or equal to that of those without these challenges at a cost per outcome equal to the average for all ADM Boards in the United States.

Interpretation/Operational Definition
People in Danforth County is interpreted to include both residents and visitors of all ages. Given the fact that the taxes are paid by residents they will be the primary beneficiary but visitors can have access to emergency assistance.

Addictions include only those that result as a chemical dependency (including alcohol, prescription and non-prescription pharmaceuticals, daily items used and consumed in a similar nature to pharmaceuticals but not including tobacco products) and mental illnesses are those illnesses as described in the DSM-IV.

Quality of life will be impacted by both the addiction and/or illnesses and the life situations usually associated with it so it is unrealistic to believe that those affected will have a life identical to others in all categories but they should have a life that approximates the basic living situations of those without those illnesses and addictions including: adequate housing, access to medical care, and employability.

There will be a continuum of life quality improvement from the onset of treatment to completion and so the quality of life should improve over time. To find help they must know that it is there so there must be knowledge of how to get help. Once in help the first thing to change will be having a private place of residence. The final step to a quality of life similar to others will be gainful employment.

Compliance will be shown when existing clients and or general population identifying themselves as having an addiction or mental illness indicate that 50% of those who are not in treatment or have just begun it are finding or know where to find medical help, that 70% of those with at least three months of treatment are also able to have a private place to live (apartment or home) and that 80% of those with at least 12 months of treatment also can report that they are employed.

Justification
The reason for these quality of life characteristics and their standard being 50%, 70% and 80% comes from accepted research by the State Health Department showing that these are the most common quality of life issues and their averages in Ohio for these conditions and circumstances because awareness is never complete, treatment is not always followed, and employment is not possible for everyone.

Compliance will be measured by a survey of existing clients once every year and the general population of the county once every five years. The survey will specifically ask whether or not those identifying themselves as having mental illness or addictions indicate that they know where to find help, whether or not those in treatment for at least 3 months have a place to live, and whether or not those with at least 12 months of treatment are employed.

Measurement System and Metrics (Data)
This policy has only been in force for one year so we have not yet conducted the general population survey.
The results of the annual survey are as follows:

<table>
<thead>
<tr>
<th>Question</th>
<th>Percentage responding positively</th>
</tr>
</thead>
<tbody>
<tr>
<td>New to treatment or not in treatment</td>
<td>At least 3 months</td>
</tr>
<tr>
<td>1. Do you know where to find medical help for your addiction or mental health illness?</td>
<td>40%</td>
</tr>
<tr>
<td>2. Are you receiving medical help for your addiction or mental illness?</td>
<td>20%</td>
</tr>
<tr>
<td>3. Are you able to pay for your own housing or are you living with friends or relatives?</td>
<td>42%</td>
</tr>
<tr>
<td>4. Are you currently employed?</td>
<td>61%</td>
</tr>
</tbody>
</table>

Statement of Compliance
I report compliance on those with 3 months treatment having a place on their own (73% with a standard of 70%) and those with 12 months of treatment having jobs (85% with a standard of 80%).

I report non-compliance on those new to treatment or not in treatment knowing where to get it and actually accessing it (40% and 0% with a standard of 50%).

It is apparent that our efforts to communicate to those with untreated issues about and how to begin treatment is not working. I will provide a presentation outlining my plan to correct this within the next 365 days.
Ends Policy
Residents will feel like they have come home

CEO Interpretation
Those who live in or visit our community will have an emotional sense that they are among family and friends, that they are honored, cared for, valued, respected and nurtured.

This will require a number of intermediate or lower level conditions which will be achieved by design.

Explanation of Table Below
In the "strategy map" below, the higher level elements (Ends Policy and Interpretation) are broken down into the required conditions which would precede the ultimate accomplishment of the Ends and Interpretation.

Each stage of detail could be:
- Measurable in terms of resident experience
- Standards of achievement on the measures as absolutes or a progression over multiple years
- Identified as part of a multi-year plan or otherwise prioritized
- Placed in one or more of the years in the plan
- Broken down further into the specific operational actions that would need to be taken
**POLICY:** Residents feel like they are home:

**INTERPRETATION:** those living and visiting in our community will feel they are among friends and family; cared for, honored, valued and nurtured.

<table>
<thead>
<tr>
<th>ENDS</th>
<th>POLICY: Residents feel like they are home:</th>
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<tbody>
<tr>
<td><strong>Further Ends</strong></td>
<td><strong>Social Conect</strong></td>
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<td><strong>Defined</strong></td>
<td><strong>Service Conect</strong></td>
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<td><strong>Measure</strong></td>
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<tr>
<td><strong>Resident Feedback</strong></td>
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