MRES® Municipal Power
LEARNING ACADEMY

# Effective Board Governance

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# Agenda

- What is Board Governance
- The Board's Role
- Characteristics of Effective Board Governance
- Steps to Achieve Effective Board Governance

# Why Talk About Board Governance?



- For an organization to serve its stakeholders well, it must have effective board governance
- To have effective board governance, both the board and management must understand and respect the roles and activities of the other

# Public Power Governance: 1900-2000

- Issues typically straightforward:
  - Keep lights on
  - Keep rates low
  - Keep customers happy (by keeping lights on and rates low!)

- Board actions were generally obvious and non-controversial



# Public Power Governance: 2000-today



- Issues are more complicated:
  - Resource type (renewable or not)
  - New technologies (AI)
  - Large loads (data centers)
  - Diverse customer expectations
  - Pressure to add services
- Difficult decisions increasingly must be made by the board

# Group Breakout

1. What is a board of directors, city council, or other governing body called to do? What are its duties?

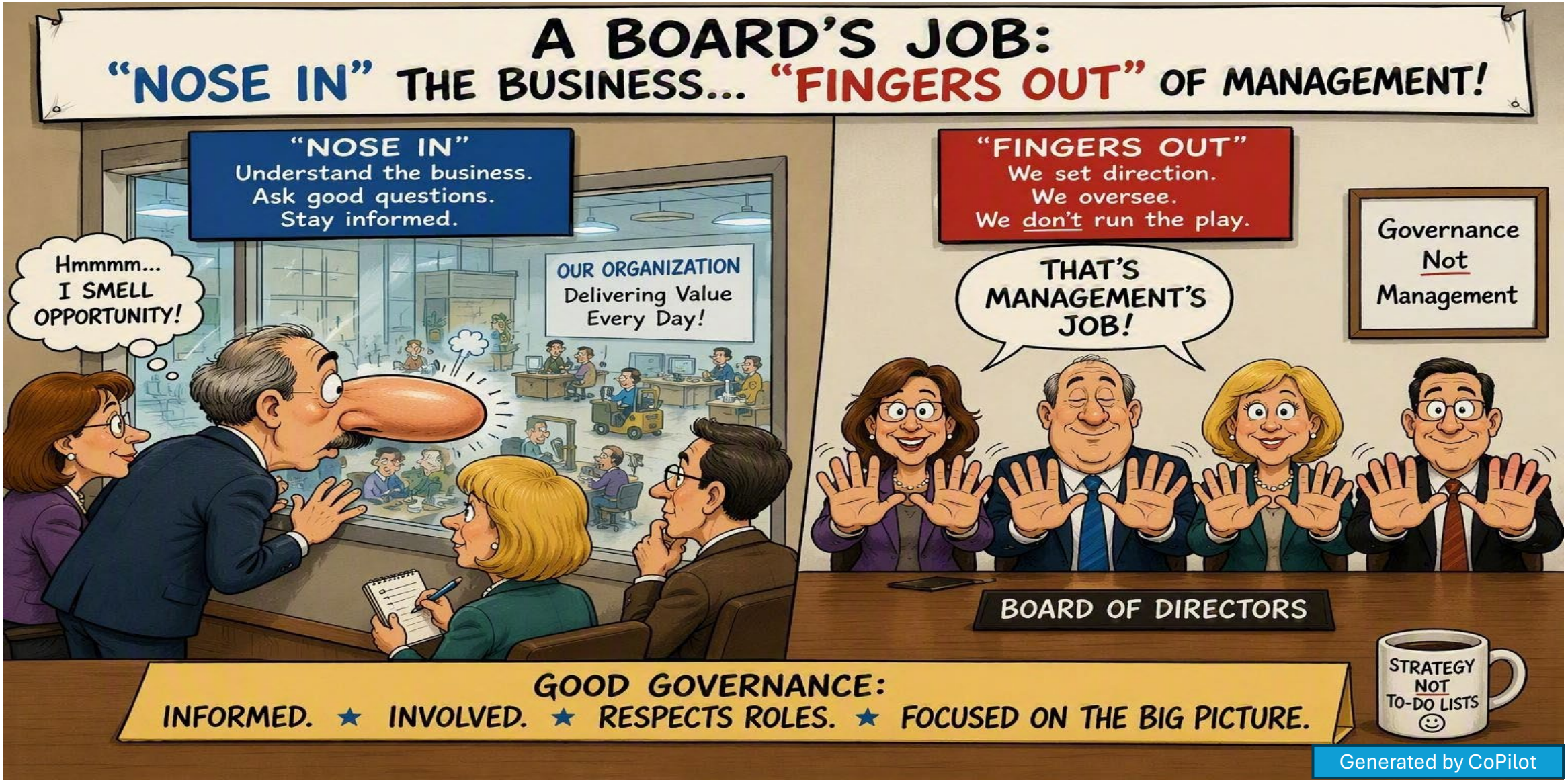
2. What are the characteristics of an effective and highly functioning board?



# The Board's Role

The fundamental role and duty of an organization's board of directors is to ***collectively oversee*** and ***strategically direct*** the organization

- Board **sets strategic direction** and **oversees** and supports management; board governs as the **ultimate decision-maker**
- CEO/Manager manages **day-to-day activities**, implementing the board's strategic directives
- Board and management have separate and distinct roles, but must work as a team to be effective


A BOARD'S JOB:
"NOSE IN" THE BUSINESS... "FINGERS OUT" OF MANAGEMENT!
"NOSE IN"
Understand the business.
Ask good questions.
Stay informed.
"FINGERS OUT"
We set direction.
We oversee.
We don't run the play.
Governance
Not
Management
Hmmmm...
I SMELL
OPPORTUNITY!
OUR ORGANIZATION
Delivering Value
Every Day!
THAT'S
MANAGEMENT'S
JOB!
BOARD OF DIRECTORS
STRATEGY
NOT
TO-DO LISTS
GOOD GOVERNANCE:
INFORMED. ★ INVOLVED. ★ RESPECTS ROLES. ★ FOCUSED ON THE BIG PICTURE.
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# Purpose of Board Governance




To represent and advance the organization's stakeholders' interests, by pursuing the organization's mission and purpose

- Board is ultimately answerable to the organization's stakeholders
- For a municipal utility, the interests of the community/customers must set direction

# Board Governance Defined

**Board governance is the process by which the board, in partnership with management:**

- Determines the direction and goals of the organization
- Assures those goals are achieved
- Meets legal and fiduciary obligations
- Continually improves the organization
- Provides accountability to the owners/stakeholders

# Group Breakout

1. What is a board of directors, city council, or other governing body called to do? What are its duties?

2. **What are the characteristics of an effective and highly functioning board?**



# Characteristics of Effective Governance

- A **clear sense of the purpose** of the organization and a unified view of its future direction
- An **effective working relationship** with the CEO or Manager, which results in successful implementation of policy direction
- **Individual board members** who are **interested**, **engaged**, and **effective** and meet their fiduciary responsibilities

# Steps of Effective Governance

1. Satisfy legal and fiduciary duties
2. Set strategic direction
3. Monitor performance
4. Ensure effectiveness of CEO/Manager
5. Ensure effective board performance



# 1. Satisfy Legal & Fiduciary Duties

- Duty of **Loyalty**
  - Must act in the best interests of the organization's stakeholders
  - May not use office for personal gain or benefit
  - Must comply with state and local gift laws
- Duty of **Care**
  - Must attend meetings, review materials, make informed decisions
  - Must comply with federal, state, and local laws, regulations, ordinances, and charters, and organizational policies/procedures
  - Must manage public resources in a stewardly manner

# 1. Satisfy Legal & Fiduciary Duties (cont.)

- Duty of **Transparency and Accountability**
  - Must govern in compliance with applicable open meetings and open records laws
  - Must allow for public participation where permitted by law
- Duty to **Act Collectively**
  - Must exercise authority only collectively as a body
  - Individual board members may not unilaterally bind organization, direct staff, or otherwise act (or purport to act) on their own

# 1. Satisfy Legal & Fiduciary Duties (cont.)




**"Culture of Compliance"**

Where a board adopts and follows policies that commit an organization to compliance with applicable legal requirements and beyond – to integrity, ethics, and respect in all decisions and activities

# 2. Set Strategic Direction

- **Board's role:**
  - Establish the organization's long-term strategy and business plan
  - Regularly review and update the strategy and business plan
  - Require management to report on implementation and achievement of the established strategy and business plan

- **Management's role**
  - Ask the board to set strategy and business plan (if it doesn't)
  - Implement and carry out the board-established strategy and plan
  - Report to the board on implementation and achievement

01



## Evaluate

# Evaluate and understand the value of your utility

1. Local control
2. Economic value to the community and economic development partnerships
3. Excellent reliability and rates

PROCESS PROGRESS

1 Discover — 2 Design — 3 Execute — 4 Review

02



## Strategic Dialogue

# Have a strategic dialogue between staff, board, and community

1. Mission, vision, and values of the utility
2. Strengths, weaknesses, opportunities, and threats
3. Customer and stakeholder interests

PROCESS PROGRESS

1 Discover — 2 Design — 3 Execute — 4 Review

03

# Alignment and Focus

## Determine key priorities to focus on (it's better to do a few things very well than many things not well)

1. Align values and priorities with staff, board, and community
2. Prioritize and focus the limited resources and staff on identified priorities
3. Be disciplined in achieving priorities and continuous improvement

PROCESS PROGRESS

1 Discover — 2 Design — 3 Execute — 4 Review

04



## Communicate and Educate

# If you aren't telling the story, someone else will (and you may not like it)

1. Implement a plan to communicate value (website, social media, community events)
2. Survey customers to obtain "actionable" data (measure customer knowledge and needs)
3. Continue to actively promote your utility and educate your customers

PROCESS PROGRESS

1 Discover — 2 Design — 3 Execute — 4 Review

# 3. Monitor Performance

- Establish and review **key performance indicators** to determine the effective operation of the organization and its pursuit of its mission and purpose

- Practice effective “nose in, fingers out” through **board-established** and **staff-performed and reported** key performance indicators



# 3. Monitor Performance (cont.)




**Developing/using key performance indicators:**

- **Information**: What does the board need to know to assure the organization is functioning effectively?
- **Encouragement**: What does the board need to do to encourage high performance and achievement of the organization's mission and purpose?
- **Communication**: What does the community need to know about the organization's performance?

# 4. Ensure Effective CEO/Manager

- Take the necessary actions (hiring, directing, delegating, evaluating, rewarding, correcting, and replacing) to ensure the effectiveness of the CEO/Manager
- Provide CEO/Manager with the direction, resources, and authority needed to successfully lead the organization
- Establish measures to determine effective CEO/Manager performance

# 4. Ensure Effective CEO/Manager (cont.)

**CEO/Manager performance evaluation is a process and tool for the board to:**

- Reach consensus on the future direction of the organization
- Develop goals for the organization and CEO/Manager to realize that future
- Agree on targets and measures of CEO/Manager performance



# CEO Performance Evaluation Example

| | | Achievement Levels (select one) | | | | | |
|---|---|---|---|---|---|---|---|
| **Performance Measure** | Definition | 1. Unacceptable | 2. Needs Development | 3. Meets Expectations | 4. Above Expectations | 5. Outstanding | **Comments to Support Rating** |
| **Operational** | Highly reliable, safe utility operations and excellent customer service at good value; highly reliable, environmentally responsible sewer service | | | | | | |
| **Financial** | Provide competitive cost utility service for electric, gas, and water; operate within appropriate budgetary guidelines; effectively manage cash and collections; identify and implement initiatives to keep operating costs down | | | | | | |
| **Board Relationship** | Effective Board relationship; ongoing, effective communications with Commissioners, to keep them updated and informed on all significant issues and get guidance/input on all policy decisions | | | | | | |
| **External Relationships** | Maintain effective relationships and represent NPU with key external stakeholders; City Manager, Mayor, Public Works, City Council, CMEEC, regulators, other regional energy providers and regional industry associations | | | | | | |
| **Organizational Leadership** | Provide vision, set strong performance standards, build high-performing culture; strengthen organizational skills and provide effective succession plan | | | | | | |
| **Planning** | Ensure both effective short- and long-term planning on behalf of NPU, encompassing emergency planning; long term planning – encompassing asset replacement, technology, asset management, strategic partnerships | | | | | | |
| **Overall Performance Score** | **Using judgment, rate on 1-5 scale** | | | | | | |

# 5. Ensure Effective Board Performance

- Evaluate the board's own policies, operations, practices, and performance
- Ensure the board's legal, fiduciary, and policy responsibilities are being met
- Identify and implement ways the board can improve its effectiveness as a governing body

# 5. Ensure Effective Board Performance (cont.)




**Common problems in board performance:**

- Focus of meeting – too much time on operational or trivial matters
- Short-term bias – budget v. goals
- Reactive stance, rather than strategic perspective
- Leaky accountability – delegation to management without review
- Role confusion – board v. management responsibilities

# 5. Ensure Effective Board Performance (cont.)

**Reasons for board self-evaluation:**

- Promotes understanding of roles and responsibilities (and acts as additional orientation for newer board members)
- Addresses, and may help resolve, board conflicts
- Clarifies what members expect from group
- Identifies strengths and weaknesses
- Clarifies areas for improvement
- Identifies priorities for future efforts



# Board Self-Evaluation Example

**Rating for Board Self-Evaluation:**

5=All of the time; 4=Most of the time; 3=Some of the time; 2=Seldom; 1=Not at all

| GENERAL BOARD AREAS | RATING |
|---|---|
| Is there a Board policy manual addressing meeting procedures, committee roles and structure, election and terms of officers, new member orientation, and related matters? | |
| Do all Board members participate in a formal orientation? | |
| Are Board procedures adhered to regarding bylaws, open meeting requirements, compliance with legal regulations, etc.? | |
| Are meeting packets complete (with agenda, clearly written reports and options and recommendations from the General Manager) and distributed prior to meetings? | |
| Is the length of Board meetings appropriate? | |
| Is there an annual Board calendar? | |
| Does the Board receive sufficient information to make good decisions? | |
| Are decisions made in a timely manner? | |

# Hallmarks of an Effective Board

1. There is an understanding among board members on the key drivers of the organization's business
2. The board focuses on long-term trends and strategic issues facing the organization, instead of details of day-to-day operations
3. The board has an understanding of appropriate metrics of corporate performance
4. The board has manageable agendas and allocates time appropriately at meetings

# Hallmarks of an Effective Board (cont.)

5. Information is disseminated to board members before the meeting so they can prepare ahead of time
6. Board members are clear with themselves and with management about the complementary roles each must play
7. The board sees that the next generation of senior leaders are being developed within the organization

*From “Leading from the Board Room,” by Jay Lorsch and Robert Clark, Harvard Business Review, April, 2008.

# Summed Up

- Effective board governance occurs when board members exercise independent oversight, make informed decisions in the best interests of the organization and its stakeholders, set clear strategic objectives for management, empower management to achieve those objectives, and hold management accountable to do so
- Strong boards foster transparency, constructive debate, and accountability while maintaining a clear distinction between governing (setting direction and oversight) and managing (day-to-day operations)

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# Thank You


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