

UNDERSTANDING YOUR BOARD'S ROLE AND RESPONSIBILITIES

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R. John Miner

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John is an accomplished engineer, executive manager, consultant and educator with 45+ years of experience in the utility industry. He is a former Assistant Professor at the University of Houston, General Manager of Rochester (MN) Public Utilities, Board member and President of Southern Minnesota Municipal Power Agency, and Chief Operating Officer with Austin Energy (Texas).

John is a frequent seminar leader and short-course instructor for the American Public Power Association



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Jillian S. Wolfe Education & Development Consultant



Jillian brings 15 years of diverse experience to Collaborative Learning/Collaboration Unlimited. She graduated with her Masters Degree in Human Development from Pacific Oaks College, Pasadena California, and received her Bachelor's Degree in Applied Learning and Development from The University of Texas at Austin. She has been an Educator, Trainer, and Recruiter working in the fields of public education and high-tech.

Jillian works with clients in the areas of governance development, leadership development, and education/training.



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Board Role and Responsibilities

We will explore these questions:

- ❖ How does a board ensure sustainability through its governance structure and processes?
- ❖ How does a board work with its CEO and executive team to set strategic direction?
- ❖ How can a board use policy to establish organizational accountability?
- ❖ How does a board prepare for board member and CEO succession?



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Session Topics

- ❖ Establishing a sustainable governance structure and process
- ❖ Setting strategic direction and priorities
- ❖ Establishing key policies that establish accountability
- ❖ Preparing for board and management leadership succession



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What Governing Boards Are Expected to Do

- ❖ **Fiduciary Duties:** Legal compliance, protection of assets
- ❖ **Regulatory Duty:** Serve as a regulatory body for customers
- ❖ **Key Corporate Directorship Responsibilities:**
 - ◆ Set strategic business direction
 - ◆ Establish governance policies and monitor policy compliance
 - ◆ Appoint and work collaboratively with a chief executive officer (CEO)
 - ◆ Provide performance goals and delegate authority to the CEO
 - ◆ Monitor/improve organizational performance through the CEO
 - ◆ Monitor/improve board performance



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Why Strong Governance?

The reason for wanting a board that exercises strong and effective governance has to do with an organization's sustainability. CEOs (executive managers) change over time and vary in their strengths and personalities; individual Board members also come and go. Only the board, acting as a body, can ensure that the organization's institutional philosophy is aligned with the owners'/stakeholders' long-term interests and is reasonably consistent over time.



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STRUCTURES AND PROCESSES OF PUBLIC POWER GOVERNANCE



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Acknowledgement

Some of the information presented here is derived from the
Policy GovernanceSM model developed by
John Carver
and
Miriam Mayhew Carver.



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Public Power Governance

The fundamental structures and processes of governance are established, in part, by an organization's enabling legal documents:

- ❖ State law – statutory utility, joint-action agency or public power district (typically an independent board or commission)
- ❖ City charter – (typically a city council or semi-independent board)
- ❖ Articles of incorporation
- ❖ Bylaws



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Public Power Governance

Enabling Legal Documents typically focus on these essentials:

- ❖ Legal authority of the board under state law
- ❖ Number of members
- ❖ Board member qualifications
- ❖ Board member appointment, authority, process, terms, succession, and replacement
- ❖ Board member attendance requirements
- ❖ Quorum requirements and voting

Boards need more structure than this to establish and sustain effective governance



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Governance Policies

A board should augment its legally defined governance structure and processes by adopting its own policies:

- ❖ City charters, articles of incorporation, and bylaws alone do not provide adequate direction for effective governance
- ❖ Board members and CEOs change over time...policies can help ensure consistent governance
- ❖ Policies make service on the board more attractive to potential board members...policies are an important element of new board member orientation



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Governance Policies

- ❖ Policies help the board address difficult decisions more quickly because they already incorporate important deliberation of issues
- ❖ Policies establish clarity about the roles of the board and the CEO...this clarity supports an effective and collegial working relationship and is attractive to potential CEOs and managers
- ❖ Policies elevate the perception of the utility's governance to key stakeholders...customers, employees, local leaders, regulators, etc.



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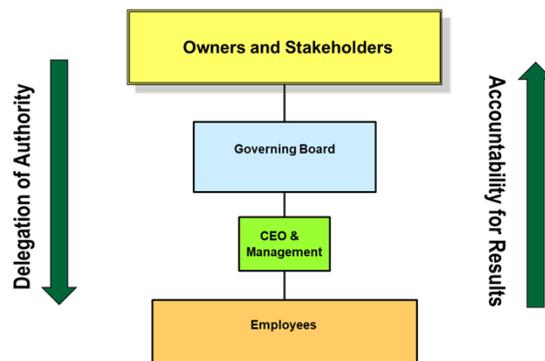
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Board Policymaking

- ❖ Board policymaking is largely an exercise in delegation to others from the authority that it has been legally granted.
- ❖ The board adopts policy that establishes specific accountabilities for those to whom it has delegated authority, but the board itself retains ultimate accountability.



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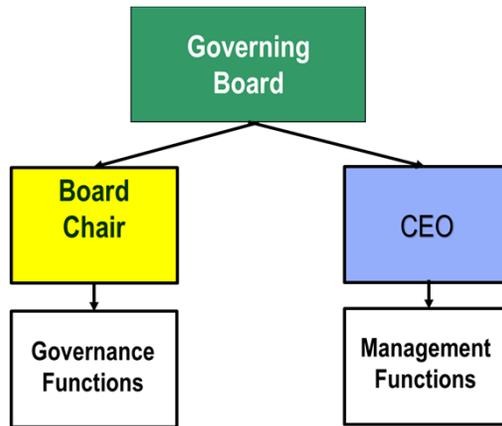
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Board Delegation of Authority

- ❖ The board essentially has two employees:
 - ◆ The board's Chief Governance Officer or CGO (Chair, President, etc.)
 - ◆ The board's Chief Executive Officer or CEO (General Manager, Utility Director, etc.)



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Governance Policies

What is a policy?

A statement of value, agreed upon and adopted by a board, that

- ❖ Establishes expected behaviors, actions, and outcomes...or
- ❖ Establishes boundaries/limits on expected behaviors, actions, and outcomes



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Delegation to Management Policy Statements

- ❖ Expected behaviors, actions, and outcomes:
 - ◆ Behavior: "The CEO Is flexible and exhibits a willingness and ability to adjust to changing conditions or priorities."
 - ◆ Action: "The CEO effectively implements policies and programs approved by the Board of Trustees"
 - ◆ Outcome: The utility meets or exceeds all established financial and operational performance measure targets in the current Business Plan
 - ◆ Outcome: The utility successfully completes installation and deployment of the AMI system on or before the target dates established in the current Strategic Plan.



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Delegation to Management Policy Statements

- ❖ Limits on behaviors, actions, and outcomes:
 - ◆ Behavior: "The CEO shall not fail to respond in a timely manner to board member requests for information"
 - ◆ Action: "The CEO will not use methods of collecting, reviewing, transmitting, or storing consumer information that fails to reasonably protect against improper access to the material."
 - ◆ Outcome: "The CEO shall not allow any investment of funds that violates State law, any provision of bond indentures, or the provisions of any present or future Board-approved investment policy.



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Examples: Policy Support for Governance

Some board-approved policies assign specific accountabilities to the board itself:

Governance Policies

- G - 1 Board Purpose
 - G - 1.1 Board - City Council Relationship and Roles
 - G - 1.2 Board Authorities and Responsibilities
 - G - 1.3 Governing Style (how the Board intends to govern)
 - G - 1.4 Agenda Planning (annual agenda & meeting agendas)
 - G - 1.5 Board Member Role, Responsibilities & Orientation
 - G - 1.6 Board Member Conduct (commitments & conflicts of interest)
 - G - 1.7 Board Officer Roles, Responsibilities & Succession



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Examples: Policy Support for Governance

Governance Policies (continued)

- G - 1.8 Board Committees (principles, structure, roles and responsibilities)
- G - 1.9 Independent Advisors to the Board (general counsel, bond counsel, human resources counsel, etc.)
- G - 1.10 Governance Evaluation and Development (annual evaluation, continuing education, etc.)
- G - 1.11 Cost of Governance (financial support for Board operations and Commissioner compensation)



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Policy Support for Governance

- ❖ **A board should adopt policies that address:**
 - ◆ Specific authorities and accountabilities of its officers
 - ◆ Specific authorities and accountabilities for its standing committees
 - ◆ Specific authorities and accountabilities for individual board members
 - ◆ New board member orientation/board member continuing education
 - ◆ Board evaluation and development
- ❖ **A board should also document the desired attributes and expected commitments of board members to better attract qualified and committed board member candidates**



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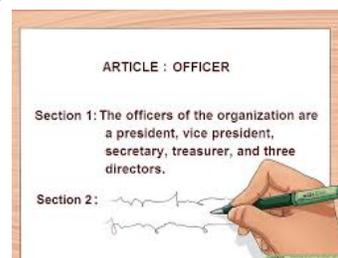
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Board Officers

- ❖ **Officers are typically named in Articles of Incorporation and/or Bylaws**
 - ◆ Basic duties of the officers are usually stipulated
 - ◆ Delegated authorities of the officers may or may not be stipulated
 - ◆ Officers are typically required to be board members
 - ◆ Exceptions sometimes apply for a board secretary and/or treasurer
 - ◆ May be a member of utility staff or separate board staff
 - ◆ May report to the board for direction and performance accountability
 - ◆ May report to the CEO administratively



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Board Policy - Authority and Accountabilities of Officers

❖ Typical for Board Chair and Vice-Chair (by board policy)

- ◆ The Chair is responsible for the integrity of the Board's governance process, expecting the Chair to set and maintain a professional and productive tone for all meetings, encouraging full participation of all Board members, effective deliberation and decision-making, and constructive resolution of any disagreements.
- ◆ The Chair may represent the Board to outside parties in announcing Board-stated positions and in stating decisions and interpretations of Board policy within the areas delegated by the Board. The Chair will report to the Board, as soon as practical, any communications made on behalf of the Board.
- ◆ The Chair is responsible for leading the Board in reviews of governance policy, policy compliance, and policy results.



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Key Principles for Policy Development/Use

1. The Board is accountable to its customers and other stakeholders for the utility's overall performance.
2. The Board is responsible for proper and effective governance.
3. The Board's most important and tangible work products are its written policies and the written record of its official actions in compliance with those policies.
4. The Board's policies are used as a definitive point of reference for all decisions and actions.



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Key Principles for Policy Development/Use

5. The Board's policies are sufficient in depth for the Board, as a body, to accept any reasonable interpretation of meaning by those to whom it delegates the authority to make decisions and take actions on its behalf (Board Officers and CEO).
6. The Board ensures that its policies are visible and well-organized.
7. The Board routinely monitors compliance with its policies and the results of its policies.
8. The Board periodically reviews compliance and updates all of its adopted governance policies.



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STRATEGIC DIRECTION



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It's All About Change

The electric utility may be on the verge of its biggest makeover ever.
 Re-regulation in the 90s was driven largely by economics and legislation.
 The changes that are coming this time around are driven by new technologies.
 ...and many more people are involved.



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Question

What is your board's role in strategic planning?

1. Strategic planning is mainly management's responsibility, but the board should formally approve the plan
2. Strategic planning is mainly the board's responsibility, but management is responsible for implementing the plan
3. Strategic planning is a shared responsibility of the board and management, but management is responsible for implementing the plan
4. Strategic planning and implementing the plan is a shared responsibility of the board and management



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The Board's Strategic Role

“A responsible and effective board should require of its management a unique and durable corporate strategy, review it periodically for its validity, use it as a reference point for all other board decisions, and share with management the risks of implementation.”

*Kenneth R. Andrews, former Harvard Business School Professor
and Father of Corporate Strategy*



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Board Policy - Strategic and Business Planning

A board should adopt policy to make clear its expectations of management when it comes to strategic and business planning.

- ❖ Strategic Plan
 - ◆ What are the elements of the strategic plan?
 - ◆ How often is it “reviewed and tweaked”...how often is it thoroughly redeveloped
Who is involved in the strategic planning process and how?
 - ◆ Does the board formally adopt the plan and share responsibility for its implementation and results?
 - ◆ How do management and the board effectively monitor/report the implementation and results?
 - ◆ How and when is the plan and its results communicated inside and outside the organization?



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Board Policy - Strategic and Business Planning

- ❖ Financial Plan and Business Plan/Budgets
 - ◆ What constitutes each plan (elements and planning horizon)?
 - ◆ How are these plans connected to the Strategic Plan?
 - ◆ How often is each plan reviewed and updated?
 - ◆ What financial ratios and other key indicators are used to monitor and report financial results in relation to plans?
 - ◆ Does the board formally adopt the plans?
 - ◆ What authority is delegated to management to modify the plans?



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Strategic & Business Planning Policy (Sample)

Purpose & Summary: With this policy, the Board affirms the importance of strategic and business planning and sets forth its expectations for the CEO in terms of the effective development, implementation, monitoring, and updating of the Board's approved Strategic Plan and Business Plan.

Policy:

The CEO shall not allow the utility to operate without the following Board-approved plans:

1. A **Strategic Plan** that provides strategic direction for a period of not less than five (5) future fiscal years in terms of high-level elements such as vision, core purpose, core values, mission, key results areas and broadly stated strategic objectives that are intended to achieve the organizational outcomes contained in the Board's Results Policies (R-Series Policies).
2. A **Financial Plan** covering not less than five (5) future fiscal years
3. An annual **Business Plan** that supports accomplishment of the Strategic Plan and sets forth specific operating and financial results in terms of elements such as actions and outcomes, budgeted financial and other resource requirements, and projected financial statements.



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Strategic & Business Planning Policy (Sample)

Consistent with this general statement the CEO shall not fail to:

4. Provide the overall direction, leadership, education, and resources needed to **engage the Board**, management employees, key staff employees, and other key stakeholders in an effective strategic planning process.
5. **Present to the Board for approval** a recommended **Strategic Plan**, a recommended **Financial Plan**, and a recommended **Business Plan**, as well as any subsequent changes to the approved plans that are needed to keep them relevant and effective. The Strategic Plan, as approved by the Board, will include the high-level elements identified above.
6. Consistent with the **strategic direction approved by the Board**, management will implement, monitor, and **periodically report to the Board the status** of the **Strategic Plan** through the use of goals, action plans, and performance measures. The Strategic Plan, Financial Plan, and Business Plan shall not materially deviate from the Board's Results Policies.



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Strategic & Business Planning Policy (Sample)

Consistent with this general statement the CEO shall not fail to:

3. **Use the Strategic Plan as a guide and point of reference** for preparing and updating the Financial Plan, Business Plan, budget and other business management tools.
4. **Communicate key elements of the Strategic Plan, Financial Plan, and Business Plan** to the Board, customers, employees, and other stakeholders at appropriate intervals to keep them well-informed about the utility's operating environment, strategic direction and desired business and operational performance.
5. **Report key business results and other operational outcomes to the Board**, customers, employees, and other stakeholders at appropriate intervals, using the Strategic Plan and Business Plan as a point of reference.



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Strategic Planning Purpose

The purpose of a strategic plan is to align and connect an organization's vision, purpose, mission and values to the business plan (resource budget and planned actions) plan that will achieve them. A strategic plan should not capture every action that will be taken during the planning horizon, but rather to identify and bring focus to those few key priorities that are critical to long-term success.



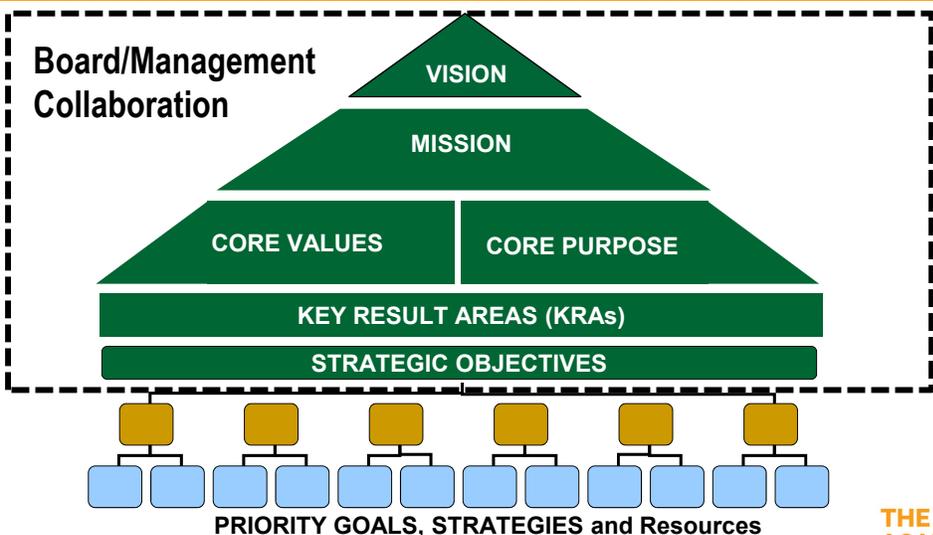
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Strategic Framework

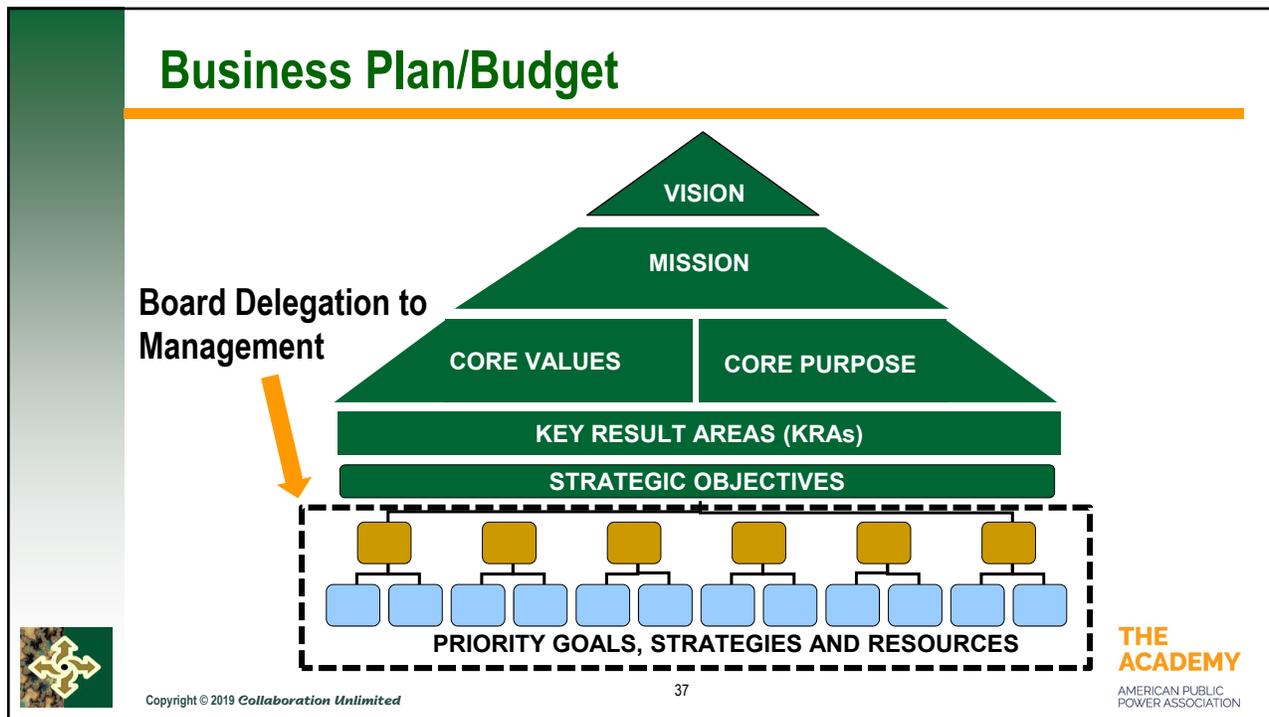


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Corporate Results Policies

- ❖ It is not intuitive to most boards that they should express as policy the positive results that they expect to see from their organization...but why shouldn't such strategic and critical direction be established and monitored as policy?
- ❖ **Boards should consider adopting results policies that are aligned (at a high level) with the organization's strategic plan.**
 - ◆ Core Purpose (Why the organization exists)
 - ◆ Vision (description of the organization's preferred future)
 - ◆ Mission(s) (What the organization does and for whom)
 - ◆ Core Values (How the organization does business)

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Results Policy Issues

- ❖ What is our organization's **Core Purpose**?
 - ◆ Our reason for being? If we weren't here as a public power utility, what difference would it make for our customers, our community, our employees and other stakeholders?
- ❖ What is our organization's **Vision**?
 - ◆ What do we want to see in 10-15 years when we look at our public power utility and the community it serves?
- ❖ What is our organization's **Mission**?
 - ◆ What services do we provide, for whom, and to what benefit for them?
- ❖ What **Core Values** do we espouse and live by as an organization?



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Corporate Results Policies

- ❖ Results policies should be positive expressions of the organizational results that the board expects
 - ◆ *Example: "Colorado Springs Utilities exists to build value for its citizen owners by providing electric, gas, water, wastewater services, and other products and services in a safe, reliable, and competitive manner. Further CSU will contribute positively to the beauty, livability and economic health of the community."*



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Question

In what ways does your board support you in being a “strategic leader”? (check all that apply)

- ❖ We have an agenda item at every board meeting for the intended purpose of education about strategic issues
- ❖ We have special meetings or work sessions periodically for in-depth briefings and discussion of strategic issues
- ❖ We are routinely provided with reading references, video links and other sources of information about strategic issues
- ❖ We are routinely encouraged to attend conferences, short-courses and webinars on strategic issues (educational events)
- ❖ Other???



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How and Where to Explore?

- ❖ APPA Website, publications, conferences, courses, webinars
- ❖ Your regional and/or state public power/municipal utility associations
- ❖ Other utility industry associations
 - ◆ National Rural Electric Cooperative Association
 - ◆ Edison Electric Institute
- ❖ Your own customers and community leaders
- ❖ Your business partners (joint-action agencies, developers, vendors, professional advisors)
- ❖ Others???. (Enter into chat box)



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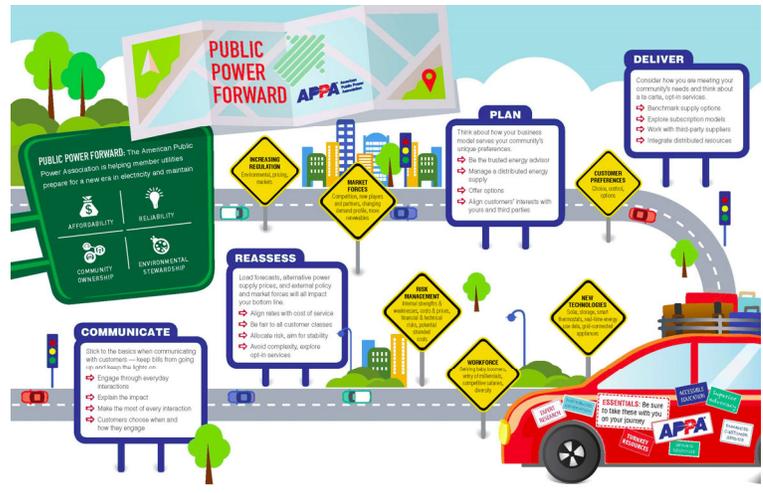
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APPA's Public Power Forward



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LEADERSHIP SUCCESSION



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Board Leadership Succession

❖ Do you have a plan to handle:

- Expected turnover of board members as a result of term limits and pre-announced voluntary retirements or resignations?
- Unexpected turnover of board members as a result of relocation, workload issues, health issues, and other reasons for unavailability?
- Expected and unexpected turnover of officers and committee chairs?
- Non-performing board members?



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Board Leadership Succession

❖ A governance policy on board member leadership development and succession can be used: to establish accountabilities for:

- A new board member orientation plan
- A process for preparing board members to hold leadership positions
- A process for dealing with non-performance by board members and officers
- A pool of qualified potential board member candidates



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Management Leadership Succession

- ❖ **Does your CEO have a plan to handle:**
 - ☑ Expected turnover of key executives and other critical employees as a result of voluntary retirements?
 - ☑ Unexpected turnover or unavailability of key executives and other critical employees as a result of resignation, workload issues, health issues, etc.?



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Board Leadership Succession

- ❖ **A delegation to management policy on leadership development and succession can be used to establish accountabilities for:**
 - ☑ New employee orientation
 - ☑ Leadership development
 - ☑ Key employee accident risk mitigation
 - ☑ Temporary leadership succession
 - ☑ Emergency services contracting



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