The board's relationship with the "moral ownership"

1. What is the difference between customers/beneficiaries and owners?

In order to determine what a board's job is and the nature of the obligations of that job, Policy Governance distinguishes between those whose lives an organization exists to change and those on whose behalf the organization has adopted that aim. A public school board exists so that young people will have skills and understandings; it does so on behalf of the general public. For nonprofits and governmental organizations, these terms are often shortened to 'customers' and 'owners.' With equity corporations (for profit), the term 'customer' is misleading since the word in commerce is used in reference to people who purchase goods and services. An equity corporation exists on behalf of shareholders and also for the benefit of shareholders. It is not remarkable for the two groups to be identical, for trade associations and city governments have the same overlap. Consequently, more accurate generic terms would be 'beneficiaries' and 'owners.

2. How are owners different from stakeholders?

Stakeholders denotes a greatly varied group of all persons who have a stake in the organizations. This group includes donors, staff, volunteers, vendors, clients, board members, neighbors, and owners. All these groups deserve to be honored in specific ways, but owners are the only ones to whom the organization owes a duty of stewardship. Owners can be shareholders for an equity corporation, community members for a community organization, paid-up members for a membership association, and so forth. All owners are stakeholders, but only some stakeholders are owners. Individual persons might be in more than one of these groups.

3. If both beneficiaries and owners are important, why separate them?

Although the board has an obligation to both groups, the obligation is different in ways very important to the conduct of governance. The ownership is the legitimacy base or source of moral authority even if only in an abstract way. Beneficiaries (who may or may not be part of the ownership) are the people in whose lives the benefits show whether the organization is succeeding or failing. The owners or their delegates (the board) have the right to choose who beneficiaries will be; beneficiaries have no such right. The nature of board obligation to owners is to honor their moral authority; the obligation to beneficiaries is, like the board's obligation to all non-owner stakeholders, one of ethical treatment.

4. Who are owners of a nonprofit—the concept seems strange?

The word "owners" might seem strange for some nonprofits. For nonprofits like trade associations, professional societies, federations, and governmental ones like city councils or public school boards, however, the proposition that there is a body of persons who are the legitimate owners isn't strange at all. For the many nonprofits referred to as "community organizations," there is great commitment to acting as if the community at large owns the organization, even if the word feels unfamiliar. Policy Governance doesn't contend that the legal concept of ownership pertains to such nonprofits, but that a new concept of moral ownership pertains very importantly. It is this ownership the board represents.

5. In practice, how does a board stay in contact with its owners?

There is a wide spectrum of board-owner circumstances and a commensurately wide spectrum of best practices. For some boards, the ownership is small enough that routine in-person meetings work. For others, a sophisticated sampling technique is good. When the ownership is large, the board must take care not to allow self-selection or other bias to substitute for statistically valid owner input. Public school boards and city councils fall into that trap routinely when they mistakenly treat people who attend their meetings as "the public."

6. Is our organization's "members" its ownership?

Perhaps. In authentic membership organizations—such as trade associations, professional societies, credit unions, co-operatives, and some advocacy groups—membership is synonymous with the Policy Governance concept of ownership. In equity corporations, similarly, shareholders are the owners. In many nonprofits, however, law requires a membership that is normally far smaller than what is meant by ownership in Policy Governance. The role of this membership is often no more than to elect members of the board, rendering it merely a legal rather than meaningful device. Its downside is that it can trivialize the board's proper linkage with the community or other ownership.

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