

**CalPERS Governance Committee
Unity of Control Policy - Background Information
September 17, 2015**

Unity of Control Definition

The general definition of Unity of Control is as follows: Unity of control is the principle that the chief executive is responsible only to the Board of Directors, acting as a body. No individual Board member can direct the CEO unless specifically authorized to do so by the Board. Unity of Control policies often clarify appropriate and inappropriate communication by Board members to staff, contractors and outside parties, such as the media.

Unity of Control Policy Example

This is an example of a Unity of Control policy taken from an existing state agency.

Only decisions of the Board acting as a body are binding on the President and Chief Executive Officer (CEO).

Specifically, in or out of the Board meeting:

- a) Decisions or instructions of individual Directors, officers, or committees are not binding on the CEO except in instances when the Board has specifically authorized such exercise of authority.
- b) In the case of individual Directors or committees requesting information or assistance without Board authorization, the CEO must refuse such requests that require, in his or her opinion, a material amount of staff time, or funds, or are disruptive.
- c) Directors shall have full and open access to senior management in order to ask questions and receive all information necessary to perform their duties. However, the Board, as a body, and individual Directors will never give direction to persons who report directly or indirectly to the CEO.
- d) Board Members shall refrain from conducting performance evaluations for any employee or staff member, other than the CEO.

Current PERS Policy Related to Unity of Control

This language has been extracted directly from CalPERS Board of Administration governance policy.

The Board will have one direct report: the Chief Executive Officer. The Chief Executive Officer is responsible for the overall administration of all units, departments and functions within CalPERS. (p15)

Individual Board members are not to become involved in operational management and should not participate in routine staff meetings or other staff activities unless specifically requested by the Chief Executive Officer, in consultation with the Board President. (p20)

The Board president will act as the liaison for communications between the Board and Chief Executive Officer. (p13)

To avoid the appearance of undue influence, Board members will refrain from communications with staff, outside a Board or committee meeting, wherein the Board member advocates for, or directs staff to, a specified action, decision or course of conduct with respect to any existing or prospective investment transaction or existing or prospective contract. (p6)

Committee chairs are responsible for organizing the work of the committees. In fulfilling this function they:

May delegate to staff individual Board member requests for documents or information. Staff will inform all Board members of any documents or information provided pursuant to such individual Board member request.

Receive and assess requests from committee members for new reports and analyses. The chair will consider the following factors in determining whether the request will be granted:

- a. The current and projected workload of the staff that will be needed to complete the report or analyses.
- b. The need to engage consultants and/or third-party vendors to complete the report or analyses, and the budget available to hire any needed consultants and/or third-party vendors.
- c. The existence of current reports or analyses that may fulfill the request.
- d. How the request fits into the overall strategic goals of CalPERS. (p14-15)

The Board will have ready access to all executives, and such access will be coordinated by the Chief Executive Officer. (p16)

The Board strongly supports an environment where CalPERS staff may engage in impartial, robust, objective and ethical decision-making free of improper influence from individual Board members, executives or third parties. The Board requires implementation of a staff policy regarding impartial decision-making and immediate reporting of instances of undue influence. (p16)

Communications with Third Parties (p19)

1. Generally.

Board members have no obligation to meet with or communicate with advisors, managers, consultants, contractors or vendors. Any contacts and communications between individual Board members and advisors, managers, consultants, contractors and vendors to CalPERS will be within the judgment of each Board member. Any such contacts and communications will be in the Board member's capacity as an individual Board member with the understanding that the individual Board members do not represent CalPERS or the Board, and have no authority to bind CalPERS to any agreements, unless specifically authorized to do so by the Board.

2. Communications Regarding Investment Transactions and Contracts.

Except for communications during staff briefings of Board members in preparation for an upcoming Board meeting, and communications by committee chairs in carrying out their responsibilities as chair, individual Board members and the Chief Executive Officer should direct any proposals, questions or communications regarding a prospective or existing investment transaction or contract to the Chief Investment Officer or to his or her designee in his or her absence.

3. Communications Regarding Non-Investment Related Contracts.

Except for communications during staff briefings of Board members in preparation for an upcoming Board meeting, and communications by committee chairs in carrying out their responsibilities as chair,

individual Board members should direct any proposals, questions or communications regarding a prospective or existing non-investment related contract to the Chief Executive Officer.

If a Board member corresponds using the CalPERS logo or on CalPERS letterhead, a file copy must be forwarded to the Board Services Unit. (p20)

Inquiries or correspondence addressed to a Board member, which the Board member wishes to direct to staff for a response or assistance in the preparation of a response, should be forwarded to the Board Services Unit. (p20)