

**Developing Your Board**

**XYZ INC**

**WHOLE OF BOARD EVALUATION**



**The Australian Centre for Philanthropy and Nonprofit Studies**  
School of Accountancy, Faculty of Business

February 2009

## BACKGROUND

Thank you for your participation in the Developing Your Board (DYB) project. Your contribution has been very valuable and will enable us to make a lasting difference to all Australian nonprofit boards.

### *The project*

DYB aims to assist boards of Australian nonprofit organisations by developing the first validated board assessment tools specific to the Australian nonprofit context. This involves a rigorous survey development and validation process involving hundreds (and potentially thousands) of Australian nonprofit boards. The project has been generously supported by:

- John T Reid Charitable trusts;
- The ANZ Queensland Community Foundation – A. N. Carmichael Memorial Fund, managed by ANZ Trustees; and
- The Queensland University of Technology

We commenced the project with a review of existing board and governance surveys. Our research indicated that these surveys are not well-validated for the Australian context. This means there is little (if any) empirical evidence that these instruments measure what they are supposed to measure, or that there are any relationships between what is measured and the performance of the board or organisation. Instead, nearly all board surveys are based on the developer's experience in dealing with boards. While this commonsense approach often provides valuable insights, it does mean that results are subject to biases based on the developer's view of what is good governance, and to other problems if the survey does not measure what it was designed to measure.

Our surveys are unique as we have gathered a team experienced in using practice and theory in studying relationships between variables. We are also using statistical techniques to check that we are measuring concepts correctly and that relationships we expect to be present are there (for instance relationships between performance and attributes of governance). This provides you with confidence when the results show an area of governance in need of improvement (or one that is going well).

**The validation process we are using means the DYB surveys you completed are still under development.** We will continue to make revisions as more data are collected to inform our research. The scales have not yet been validated (statistically verified) so please bear this in mind when interpreting your results. You may also wish to check our wiki (<https://wiki.qut.edu.au/display/CPNS/DYB+Home>) from time to time; we are constantly updating the status of our instruments and providing resources to assist you to interpret your results and make lasting governance improvements.

### *The report*

The report is divided into the same sections as the survey:

**Board functioning:** Functioning as an effective group is critical to the governance function in general and good decision-making in particular. This section provides insights into how your board acts as a group/team.

**Board governance:** The board governance section concentrates on the activities your board undertakes. It uses a partially validated board roles scale to assess your performance around five key board roles. The results compare your perceived current performance of these roles against what members of your board perceive to be ideal levels of performance. There is also a partially validated scale that measures how your board controls the organisation.

**Board effectiveness:** The board effectiveness section provides an insight into how your board believes it is performing across a range of key governance activities as well as how the board and management are performing overall.

**Attitudes towards board membership:** Section four examines the perceptions of individual board members to various aspects of governance (e.g., remuneration and reimbursement) that may affect their personal attitudes to continuing with the organisation.

**Board demographics:** The final section provides a profile of the people who have completed this survey including information such as average length of service on the board and number of meetings attended.

### How to read the results

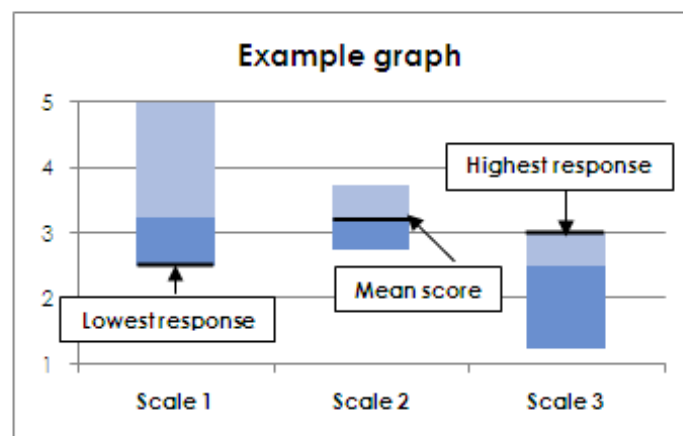
The following section sets out how you can interpret the graphs. We have included an example graph (based on fictitious data) to help illustrate.

You will notice that each bar is split into two; one half is coloured light blue and the other dark blue. The bottom of each graph (dark blue) represents the lowest response, and the top of each graph (light blue) represents the highest response. The line where the bar changes from light to dark blue represents the mean (average) response. The smaller these blue bars are, the less disagreement among your board members around the “average” response. In other words, small boxes indicate similar perceptions among your board members around the issue. Bigger boxes indicate differing perceptions around this issue among your board members, which you may want to discuss.

The example graph below illustrates responses to three scales constructed from questions that had a possible range of answers from 1 to 5 (shown on the vertical axis) where 1 = strongly disagree, 2 = disagree, 3 = neither agree nor disagree, 4 = agree, and 5 = strongly agree.

The means (averages) for scale 1 and scale 2 are the same (approximately 3.25) indicating that, on average, there is slight agreement for both scales. However, the responses from scale 1 show a much wider spread (ranging from 2.5 to 5) compared to scale 2 (2.8 to 3.8). This means that board members had large differences in perception around the board’s performance on scale 1. In contrast, there does not appear to be much difference at all in perceptions around scale 2.

The lower mean on scale 3 (2.5), along with the fact that the spread of responses ranged from 3 (neutral) to 1.25, indicates that the participants generally disagreed with the questions in scale 3, although some more strongly than others.



## BOARD FUNCTIONING

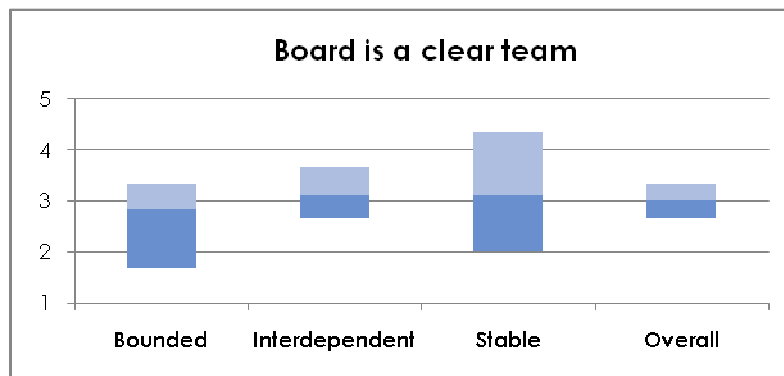
The DYB assessment of board functioning is based primarily on Hackman and Wageman's approach to team functioning. This is an integrated and holistic approach which has been studied extensively in non-board settings. We have reviewed their work and it aligns with anecdotal and normative assessments of effective board functioning. A panel of five recognised governance experts, drawn from academia, well-known board members, and experience governance consultants, also critiqued the questions, and their feedback was incorporated into the survey.

The questions are adapted from the Team Development Survey developed by Wageman, Hackman, and Lehman (2005). We have tailored and extended their work for use in the nonprofit governance context.

This model seeks to assess the following aspects of board functioning:

- recognisable team;
- clarity of purpose;
- board composition;
- board resources;
- peer support;
- team capability;
- social capital;
- board behaviour; and
- personal satisfaction.

### Recognisable team



The first series of items seek to provide insight into whether your board operates as a recognisable team. The results shown in this graph can be read in terms of the following:

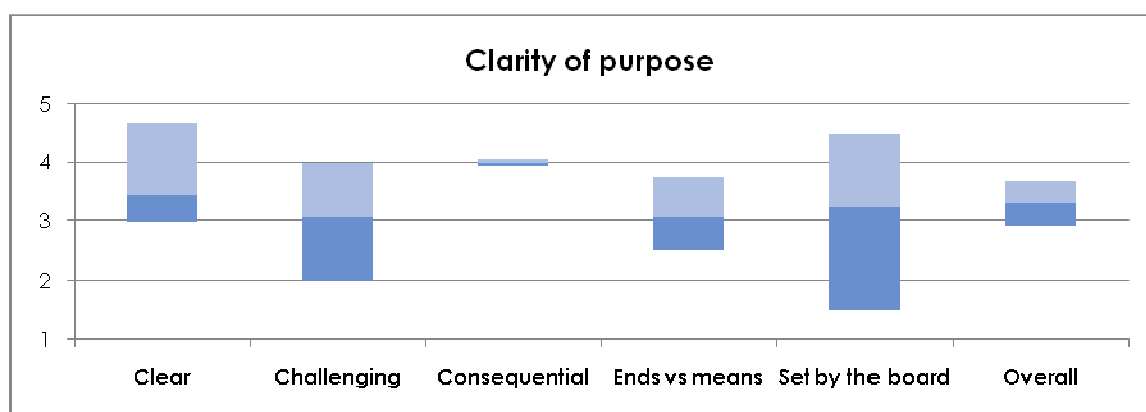
- **Bounded** examines whether there is structural clarity as a team. Teams that lack sufficient structure (e.g., not knowing who is on the team) often prove ineffective. Quite simply, it represents whether board members believe they know who is (and who is not) on the board or governance team. It is surprising how often there is disagreement, even among team members, as to who is or is not on the team. For instance, when counting the number of board members do all members include the secretary and/or senior manager (if they are not official members of the board) in their calculations? A high score on this item (5) would mean that there is strong agreement that respondents (people who completed the survey) would know who is on the board.
- **Interdependent** measures whether the board members work independently or collaboratively to achieve mutual goals. For example, in some boards, members will regularly call upon one another prior to a meeting when they have queries about a topic that they know another board member understands well. This would be an example of an interdependent board where the members are working with one another to achieve an outcome. In contrast, some boards may operate such that board members generally work

on their own (for instance reviewing board papers in isolation from each other and management) and come together only at board meetings where they make decisions. This board would register a lower rating on this interdependent scale.

- **Stable** illustrates the board's perception of changes in its composition – whether there are too many or too few changes in membership. In some instances, boards have rapid turnover which inhibits the board's performance. At other times, boards may be too stable – for instance if board membership has not changed in several decades. In this case, a high score indicates a very stable board composition with few changes whereas a low score indicates the composition changes a lot.

We do not have any validated benchmarks for you to compare in this series of items. Anecdotally, we would expect boards to score with a mean greater than 3.7 for there to be an overall positive perception of this particular topic. Boards with a mean below this level may well benefit from an examination of their composition, organisation of workflows to improve interdependencies, and turnover rates.

### Clarity of purpose



The next series of items seek to understand the goals of the board. In particular, it seeks to illustrate the strength of goal purpose and goal clarity among your board's members. General work on teams suggests that the group's goals should be clear, challenging, of consequence, and that the group should be in control of both their goals and the way the goals are to be achieved if it is to be a high performing team.

- **Clear** illustrates whether the board has clarity around their role and goals. Do board members believe everyone understands what they should be doing and what the goals of the board are? For instance, a board may not understand their role vis-à-vis management. Or they may not have clear goals to which the group is committed. A high score on this scale indicates a high level of agreed clarity.
- **Challenging** illustrates the degree to which board members believe it will be difficult to achieve the goals that they set and whether the goals challenge the capacity of the board and its members. For example, for most boards the goal “hold three meetings a year” would not be challenging. In contrast, the goal “ensure we run a best practice strategy process” may be far more challenging. A high score indicates highly challenging goals, and a low score little challenge in the goals.
- **Consequential** measures whether board members believe that what the board is trying to achieve actually matters. For example, a board may have a goal of “taking best practice minutes”. This goal may not be perceived by board members as very consequential when compared to “ensuring the organisation is a world leader in ...” Research indicates consequential goals are more motivating. The higher the score on this scale, the more respondents agree that their work is of consequence to the organisation.
- **Ends versus means** measure seeks to understand whether the board members control the ends, the means, or both, when setting goals. For instance, does the board believe it has control over what it is aiming for (i.e., its areas of mission) or is this set by someone else (e.g., funders)? Similarly, does a board have any control over the way it operates or is that set out by others (e.g., regulators)? A high score on this item means that the respondents believe they have a high level of control over both the ends and the means. A mid range score indicates some control over either ends or means, but probably not both; and

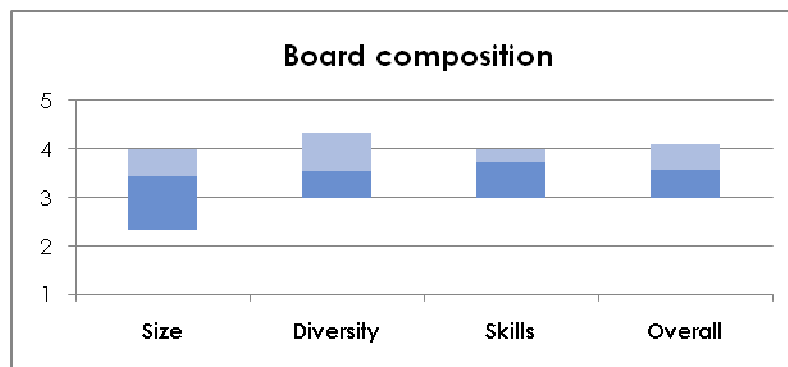
a low score indicates that respondents believe that external parties largely determine board processes and direction.

- **Set by the board** seeks to understand this goal-setting focus separately. A high score indicates agreement that the board sets its own goals and processes for achieving these goals.

We do not have any validated benchmarks for you to compare in this series of items.

Anecdotally, we would expect boards to score with a mean greater than 3.7 for there to be an overall positive perception of this particular topic. Boards with a mean below this level may well benefit from examination of their goals to ensure they are clear, challenging, consequential, correctly balanced on ends and means, and that the board has an appropriate role in setting goals.

### Board composition



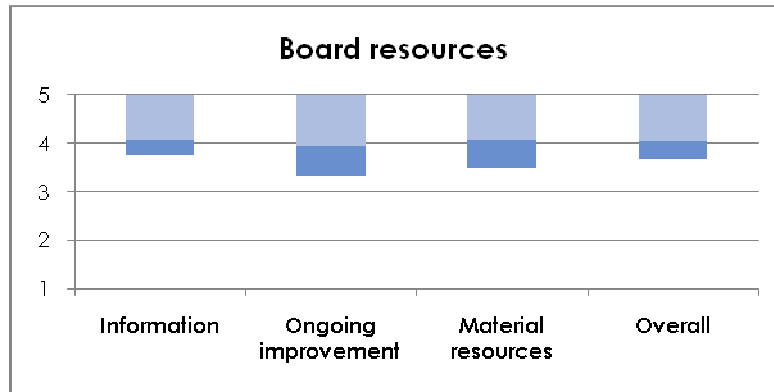
This graph provides insight into your board's perceptions of its composition. There are three key elements which have been examined: size, diversity, skills.

- **Size:** The size of the board measures agreement that the board consists of an appropriate number of members. Specifically, an ideal board has the smallest number of members needed to accomplish what is required of the board, rather than too many. So this result represents your board's perception of whether you have the "right" number of board members.
- **Diversity** in skills, views, and experience is important to avoid duplication of resources. However, members who are too diverse may find it difficult to work well together. On the other hand, boards that are not diverse enough may not have the range of talent required. A high score on this scale means that board members believe you have an appropriate level of diversity in your board whereas a low score indicates board members believe you have too much or too little diversity.
- **Skills:** Members should also have skills and experience to contribute to the board. In addition to measuring perceptions of skills across the group, this item seeks to articulate whether each board member possesses knowledge skills or experience that contribute to the group's work. It is different from the overall "mix" of skills (the previous diversity measure), instead measuring whether everyone brings something valuable to the board. A high score on this scale indicates that your board members all have skills and experience that contribute to the board.

We do not have any validated benchmarks for you to compare in this series of items.

Anecdotally, we would expect boards to score with a mean greater than 3.7 for there to be an overall positive perception of this particular topic. Boards with a mean below this level may well benefit from examination of their size, diversity and skills composition.

## Board resources



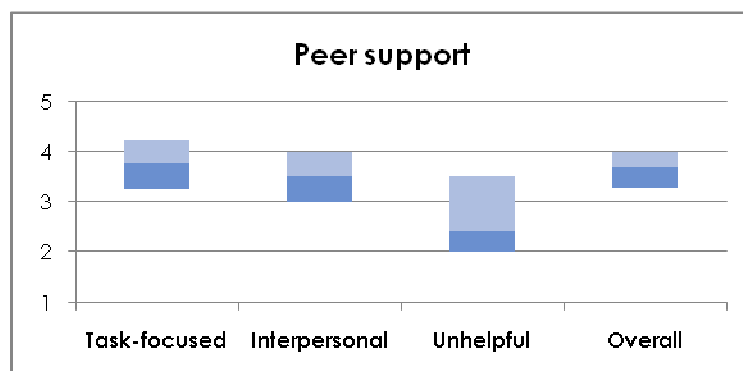
The board resources graph provides insight into three key aspects of board resourcing, namely access to information, ongoing improvement opportunities, and material resources.

- **Information:** Boards need to have an effective system in place to make sure the group has the information it needs to carry out its role. A board that scores poorly on this scale is likely to suffer from poor board papers, a lack of information to make informed decisions, or information provided in a poor form. A high score on this scale reflects a high level of confidence that the board can access any information they require to function well.
- **Ongoing improvement** measures the extent to which board members believe they are appropriately supported in developing themselves to carry out their role. A low score on this scale suggests that members may be unable to access external assistance as required or feel unable to undertake other self development activities which are important to their role.
- **Material resources** provides insight into whether board members think that enough resources are available to them to carry out their role. For instance, if your board does not think enough is spent on any aspect of its role (e.g., external advice) then you would likely score low on this measure.

We do not have any validated benchmarks for you to compare in this series of items.

Anecdotally, we would expect boards to score with a mean greater than 3.7 for there to be an overall positive perception of this particular topic. Boards with a mean below this level may well benefit from examination of their information systems, access to training and resources.

## Peer support



Hackman and Wageman's work indicates that peer coaching (or support/encouragement) is one of the biggest predictors of group performance. While we have not replicated this finding in boards, we believe peer to peer coaching has great potential to benefit boards. Three distinct forms of peer support are measured here:

- **Task-focused** peer support concentrates on whether board members support each other to carry out the board's roles or tasks. Thus, a board or management committee where members help each

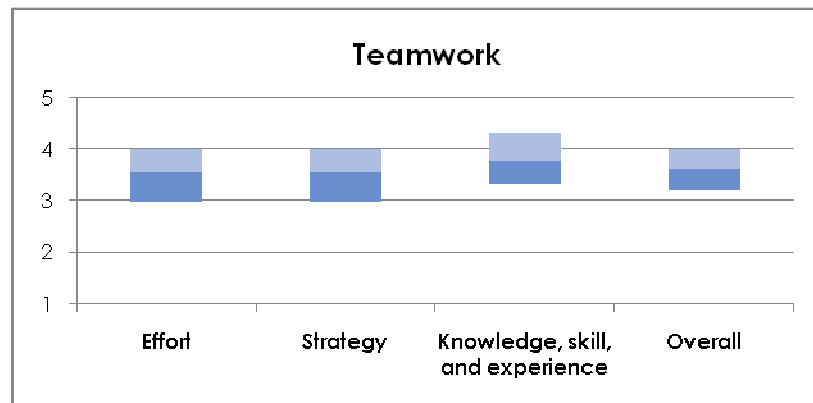
other find the most effective way to carry out their roles, motivate each other, and try to make sure the group makes the most of each individual's skills and abilities will score highly on this scale.

- **Interpersonal** peer support centres on whether board members help each other to resolve conflicts between board members. A board where members try to do this will score highly on the scale.
- **Unhelpful** support is a reversed item. This means that, ideally, you should be scoring low on this item if you are doing well. It measures whether board members go about helping in a negative or overly prescriptive way. For instance, a board scoring poorly (i.e., getting a high score) would have board members who demand that things be done their way.

We do not have any validated benchmarks for you to compare in this series of items.

Anecdotally, we would expect boards to score with a mean greater than 3.7 for there to be an overall positive perception of this particular topic. Boards with a mean below this level may well benefit from examination of the way they interact with each other.

### Teamwork



**Teamwork** measures how well your board works as a team to achieve tasks. Three scales were developed to assess teamwork: effort; strategy; and knowledge, skill, and experience.

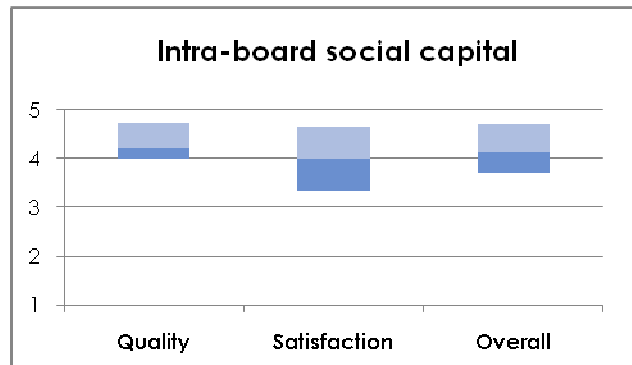
- **Effort** examines levels of commitment and contribution to ensure the board's success. Boards that have members who go above and beyond the call of duty will score highly on this scale. Those with members who do not contribute greatly will have a low score.
- **Strategy** is about the routines the board uses – how it approaches its work. Boards that score highly on this scale will have innovative as opposed to routine approaches to the board's work. They will also be boards that have good 'follow-through' on decisions.
- **Knowledge, skill, and experience (KSA)** examines whether board members share their knowledge and expertise and whether the board learns from its mistakes. Thus, it differs from the earlier composition scales as it does not measure the scope or range of KSAs, but rather whether board members use what they have. Boards where members give freely of their talents will score highly on this measure. Boards that have members who hold back will have a low score.

### Social capital

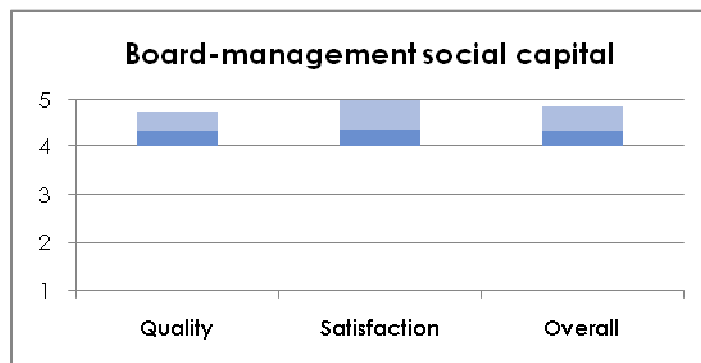
The concept of social capital is divided into two main areas. First, social interaction of individuals within the board environment is examined. Second, interaction between board and the CEO and/or senior management team is assessed.

**Intra-board social capital** measures both the quality and satisfaction with the relationships among your board's members.

- A high score on the **quality** item reflects positive, energising, interactions among board members. Boards where members feel part of the group and interactions are positive (even if people are not the best of friends) will score highly on this scale. This may involve board members feeling that the board relationships, as a whole, are improving. In contrast, boards where members feel drained after a meeting (even if the board members are friends) or where the relationships and way the board is functioning are on a downward spiral will not score highly.
- A high **satisfaction** score indicates enjoyment of interactions with other members of the board. This is subtly different from the quality scale and indicates whether board members feel they have personal satisfaction as a result of the interactions. Boards where members like one another and/or gain enjoyment from the meetings will score highly on this scale.

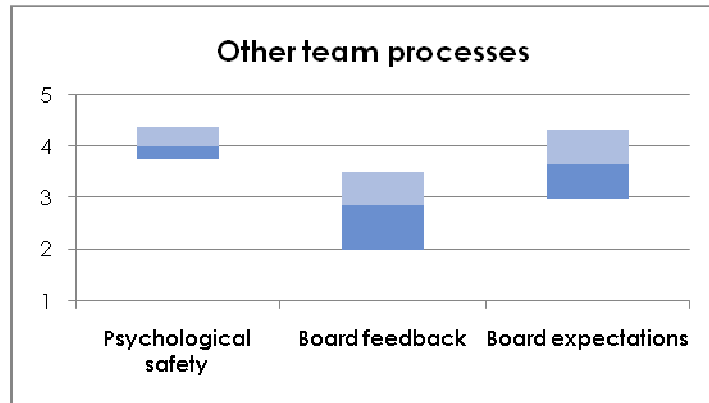


**Board–management social capital** measures the quality and satisfaction with relationships between the board itself and your organisation’s CEO and management team. The **quality** of board–management relationships is measured, with a high score reflecting positive and energising interactions between board members and the organisation’s senior management. High **satisfaction** with board–management relationships indicates board members’ enjoyment of their interactions with management.



### **Boardroom behaviour**

The boardroom is necessarily a place of deliberation and decision-making. At times, sensitive or difficult topics must be discussed. Effective boards enable members to express their views freely, with discussion underpinned by agreed rules of conduct such as ensuring timeliness and courtesy. Three indicators to assess the environment within the boardroom have been developed to measure this environment.

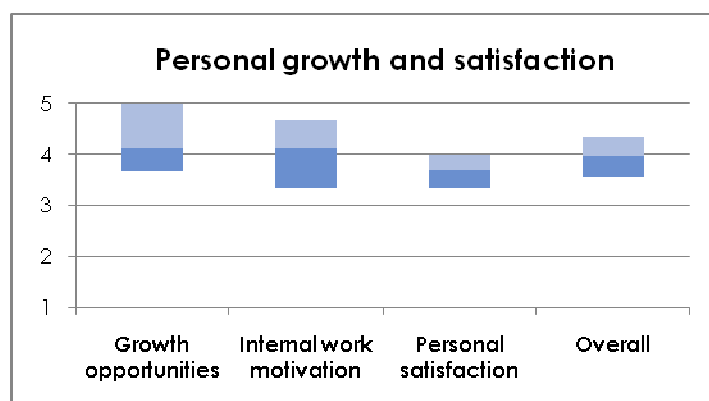


- **Psychological safety** is a scale that measures whether respondents feel safe to take risks when taking part in board proceedings. An effective team is one that shares a sense of confidence that the team will not ridicule or punish members for speaking out. A high score here indicates that board members feel they can speak their mind. If a board has members who do not feel they can speak out, this should result in a low score on this scale.
- **Board feedback** is a reflection of the extent to which board members perceive they receive valid feedback on the outcome of their performance on the board, either from internal or external sources. A high score indicates that board members believe they receive enough valid feedback. A low score indicates that board members perceive they do not receive enough feedback or that the feedback is not valid.
- **Board expectations** measure the extent to which norms about acceptable behaviour for board members are shared within the group. A board that scores highly on this scale will have a shared set of expectations. A board with a low score will not have a shared set of norms or expectations and may have dysfunctional behaviour as members do not know how to act around each other.

### Personal satisfaction

Finally, effective boards should ensure that members experience **personal growth and satisfaction**. Without these individual levels of engagement, a board is likely to perform below its best. This set of items looks at the opportunities for your board's members to develop in their roles. The constructs show that:

- Boards that score highly on **growth opportunities** for personal development believe they have ample opportunities to develop their potential.
- Boards that score highly on the **internal work motivation** will have a naturally high level of interest in the board's performance.
- Boards where its members are deriving **personal satisfaction** from being on the board will score highly on this scale.

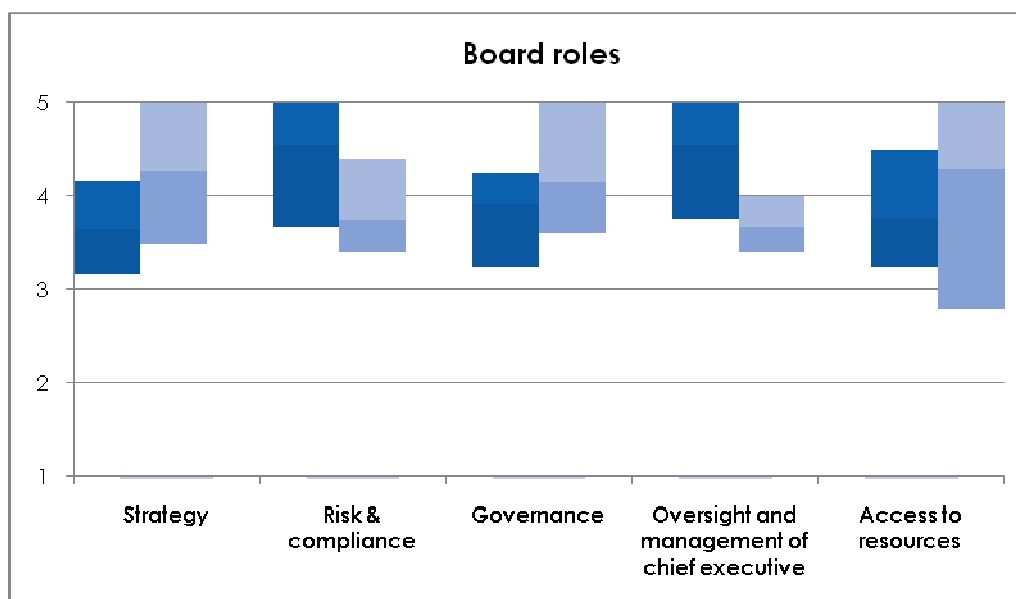


## BOARD GOVERNANCE

### Board Roles

This next series of results is based on a survey instrument we have been developing for four years. Your responses have been collated against a series of the five key governance roles that we have isolated from our empirical research.

We have also found that there is a difference between how people think they are currently performing and how well they think they should perform. In other words, how important things are (ideal ratings) are different from how well we are doing (current ratings). In the graph below, the darker colour graphs represent your current ratings and the lighter colour graphs represent your ideal ratings.



Our research highlights that board members and officers think about their governance in terms of five different areas. These areas are board involvement in:

- **Strategy** including setting direction, planning, ensuring alignment between actions and plans as well as monitoring organisational performance.
- **Risk and compliance** including overseeing risk management plans, understanding legislative risks, overseeing legislative and stakeholder requirements, along with understanding key risks.
- Oversight of the **governance** system, including understanding and delineating the board's role, assessing the board's performance and developing skills and having frameworks for managing compliance and risk.
- Oversight and management of the **chief executive** including performance management (both assessment and remuneration), succession planning for senior management and the chief executive, and assisting or mentoring the chief executive.
- Providing **access to resources** for the organisation including scanning the environment, making contacts available to the organisation, securing necessary resources and contributing new ideas.

The graph represents a comparison between current and ideal ratings across these five topics for your board. For 'current ratings', a score of 5 indicates your board thinks they are doing well on this topic and 1 indicates the board thinks it is doing poorly. For 'ideal ratings', the score indicates how well your board thinks they should be performing this role.

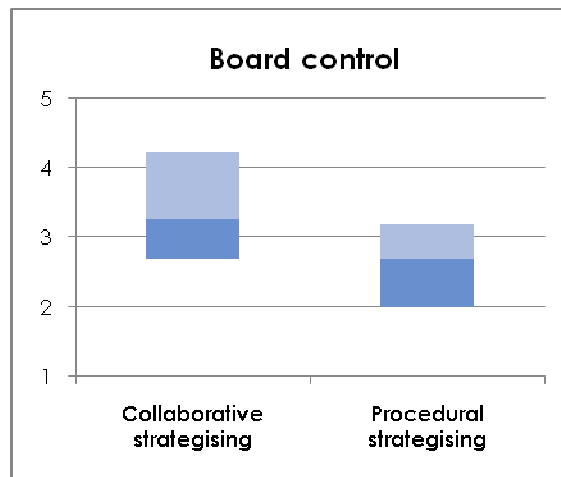
## Board Control

In addition to the topics or functions of a board, we have spent four years researching how boards interact with their management teams. In conjunction with Kevin Hendry (a fellow researcher), we have developed a measure of how boards work with management: through collaborative strategising or procedural strategising. Your board's results are shown in the graph below.

**Collaborative strategising** reflects a concentration on collaboration around strategic concerns or issues – the board and management working through the issues together.

**Procedural strategising** focuses on establishing targets (particularly financial targets) or ground rules for which management are accountable for.

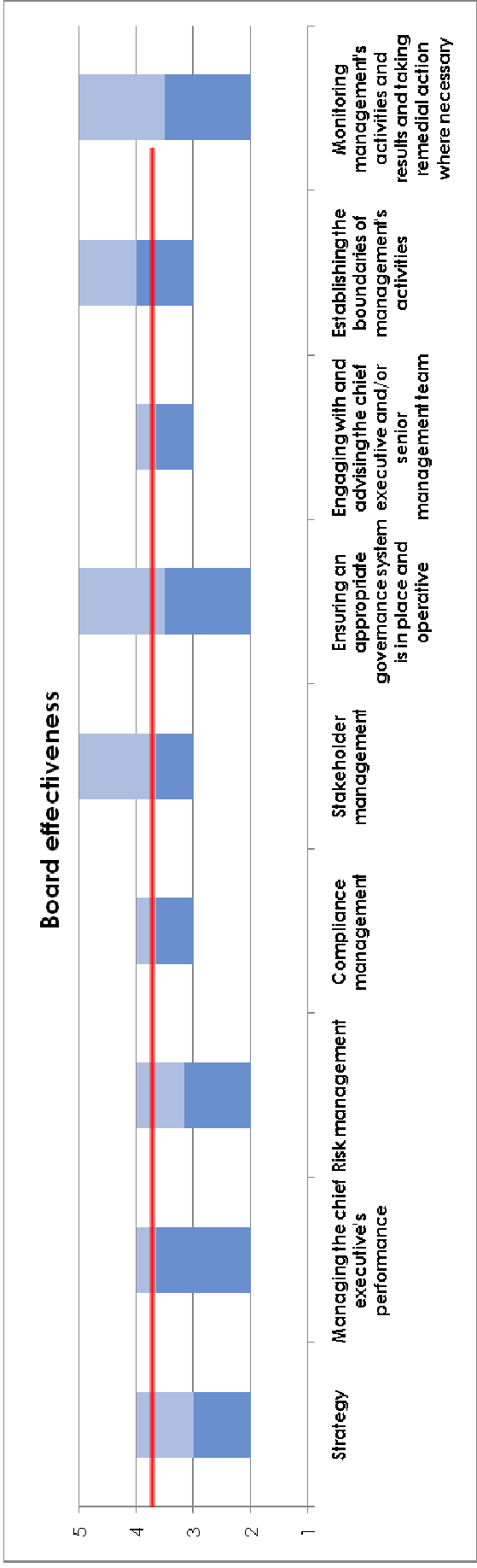
Of course, all boards do a certain degree of both, so it is the balance of these measures that is important. Our research indicates that boards with a higher degree of collaborative strategising are seen by themselves and their management teams as performing better than those that rely on procedural strategising.



## BOARD EFFECTIVENESS

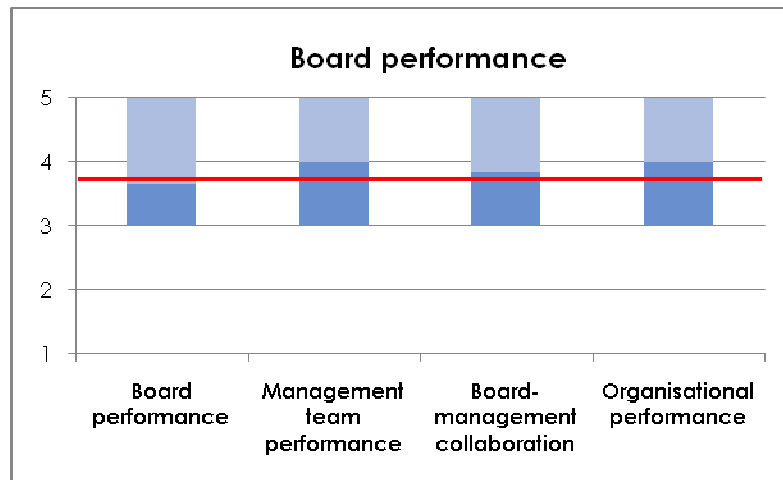
The preceding sections concentrated on elements of what the board is doing. In this section, we asked your board members to directly assess how they were performing. This was done overall as well in specific domains or tasks that the board undertakes.

The first graph summarises perceptions of board effectiveness across a range of dimensions. Each of these board effectiveness areas was assessed using a scale of 1 (very poor) to 5 (very good).



While we do not have benchmarks at this stage, we have included a line at the 3.7 mark, which we think indicates an average "positive" response to this dimension.

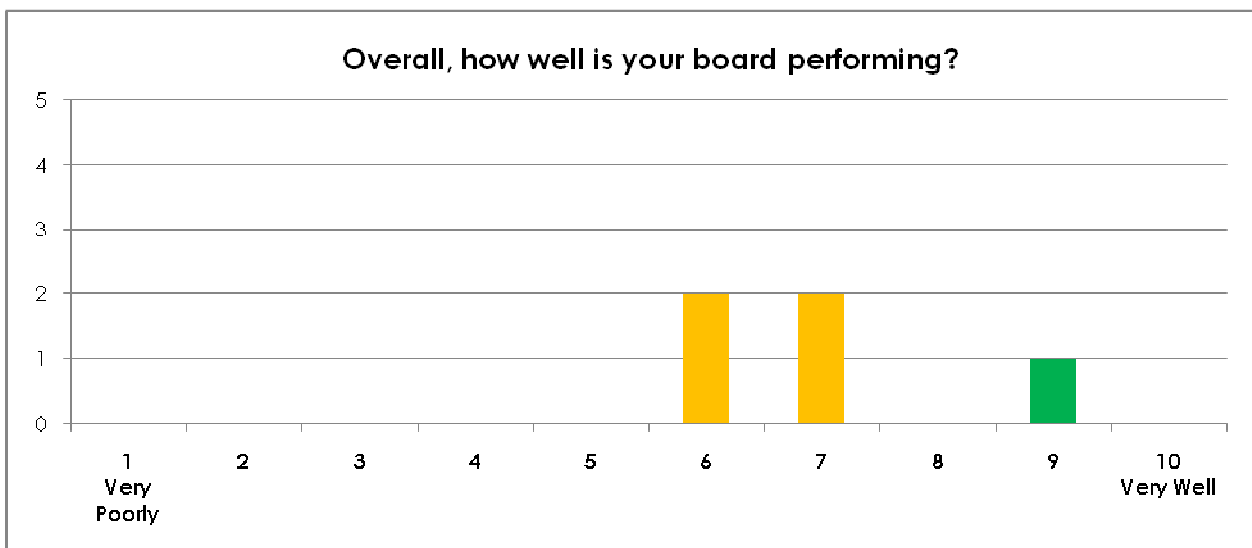
We also asked for summary views on how your board members saw the performance of the board, the management team, the board–management collaboration, and overall organisational performance.



Again, each of these performance domains was assessed on a scale of 1 (very poor) to 5 (very good). While there are no benchmarks, we have included a reference point of 3.7.

The graph below is the first of several that represent the distribution of responses for one question (in this case, overall performance). Overall board performance was assessed with one item on a scale of 1 (very poorly) to 10 (very well). The responses have been colour-coded to aid interpretation of the results. We would caution, however, that these categorisations are not validated, but based on our experience with boards.

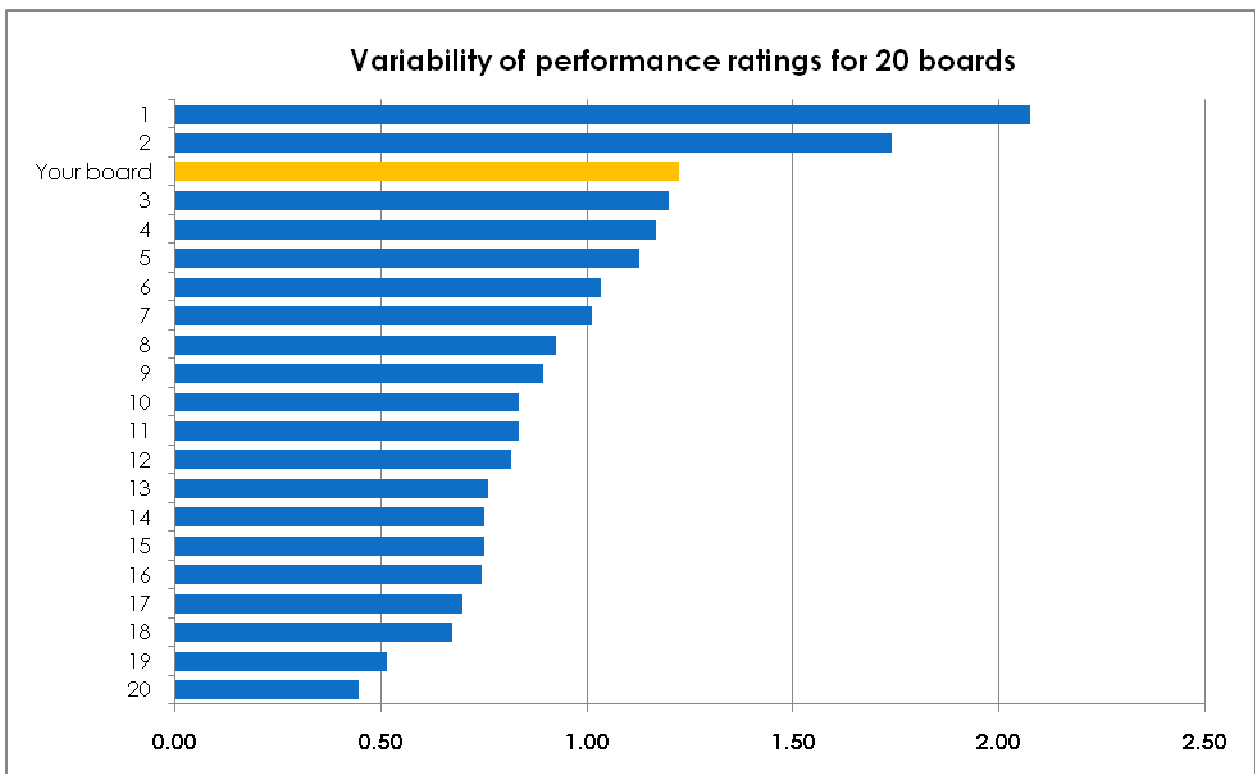
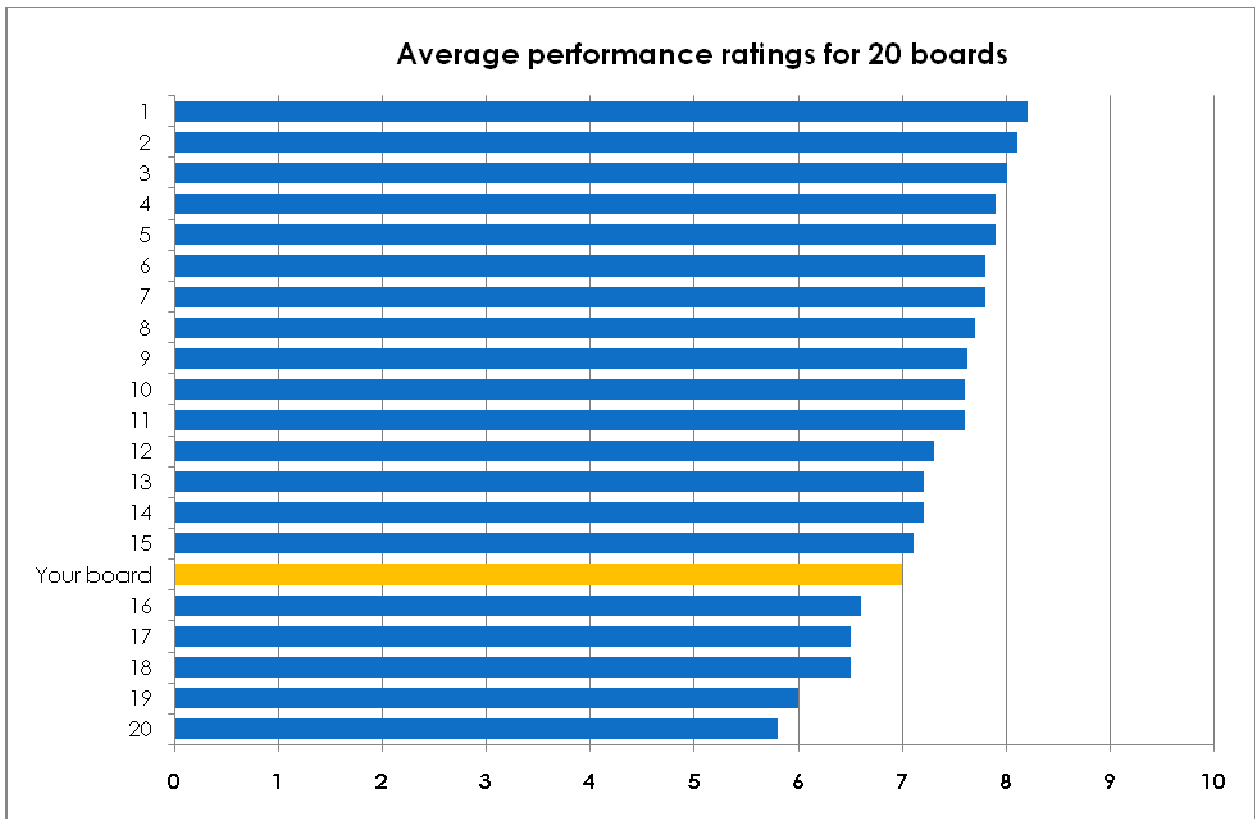
The height of the columns in this graph show the number of respondents who scored your board at that level.



	1-4	Needs improvement
	5-7	Satisfactory
	8-10	Excellent

The following two graphs show overall performance data from 20 boards, of both nonprofit and for-profit organisations, in terms of both average rating and variability of ratings (standard deviation). The average

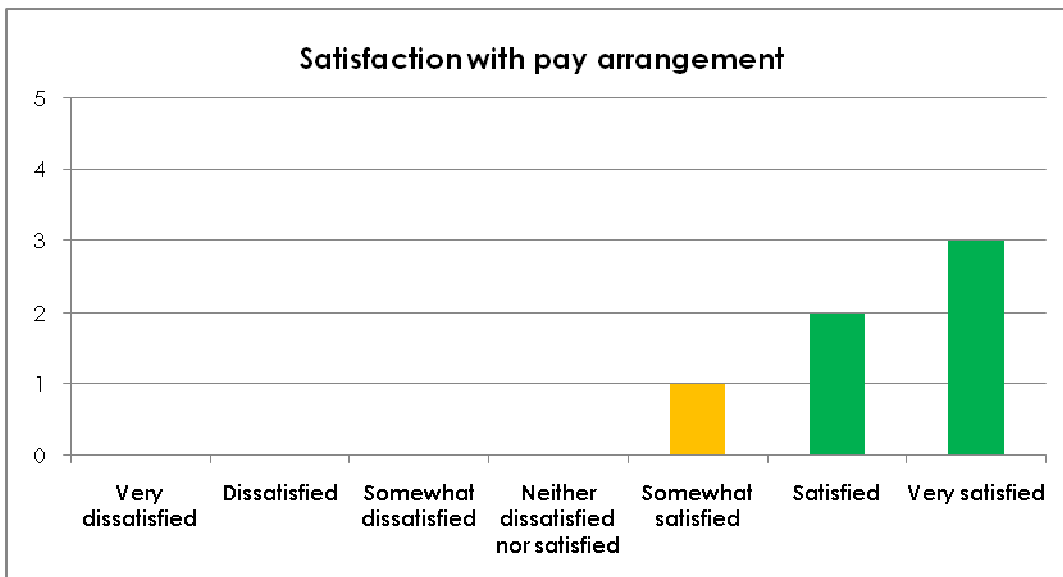
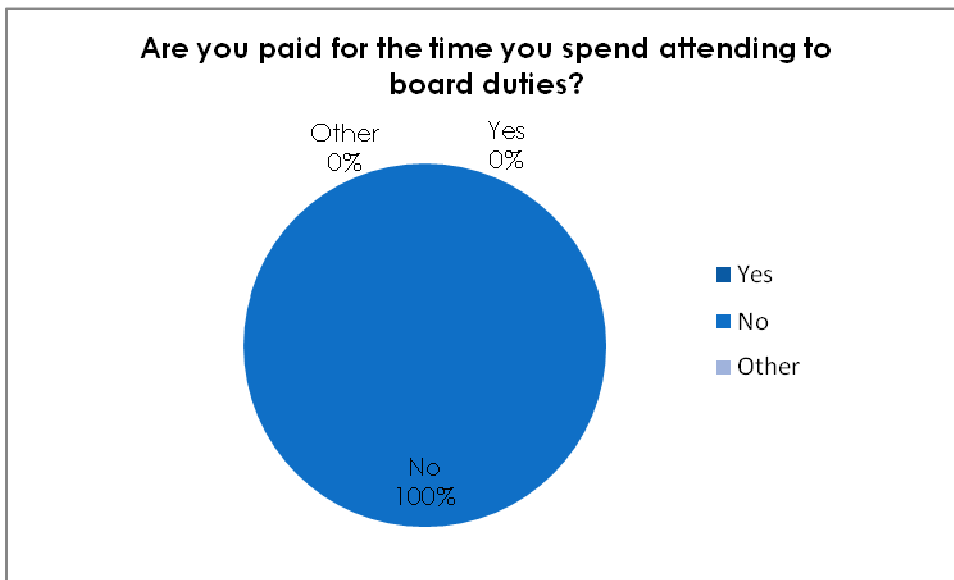
rating and variability of ratings for your board are indicated in yellow. These graphs allow a comparison between your board and a range of other boards (as more data are collected, these will be updated to reflect only boards of nonprofit organisations). Generally, boards tend to rate their performance quite highly. However, the level of agreement among board members regarding performance can differ widely.



## ATTITUDES TOWARDS BOARD MEMBERSHIP

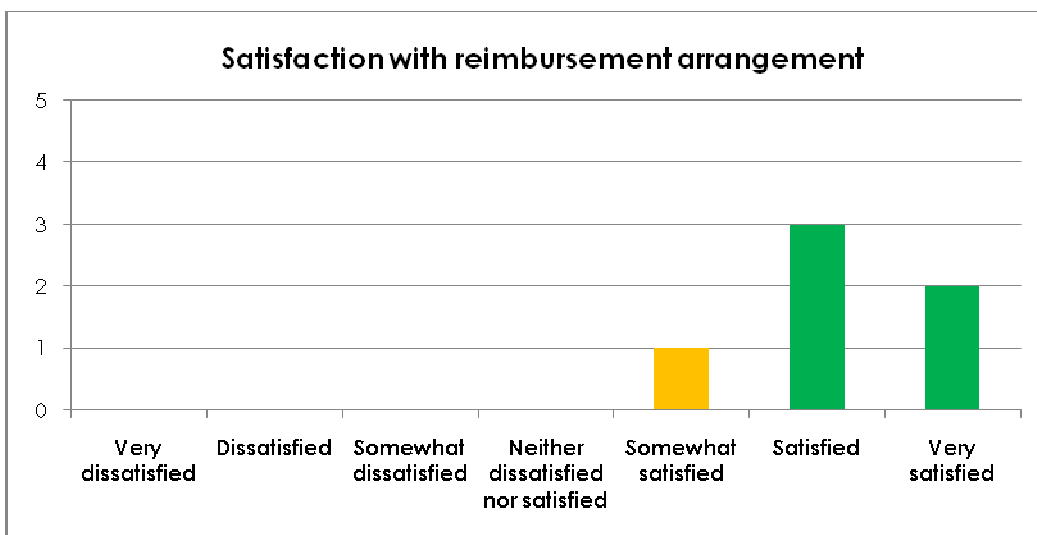
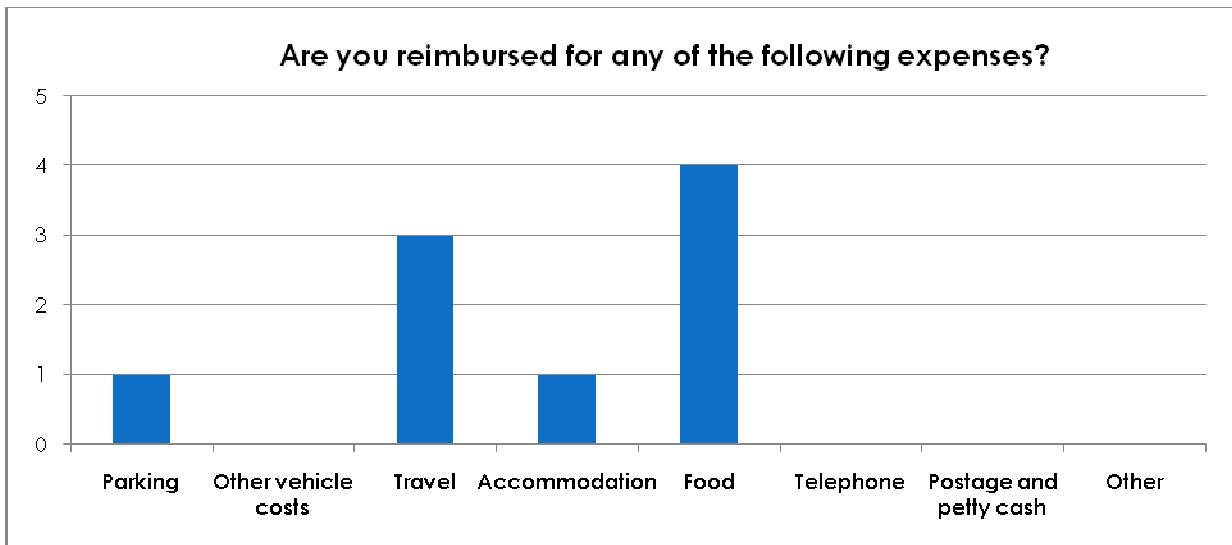
This section assesses board members' attitudes towards the role they play in the organisation. It involves information on remuneration, reimbursement, and motivations.

The following two graphs indicate whether board members are paid for attending to their board duties, and how satisfied they are with that pay arrangement.



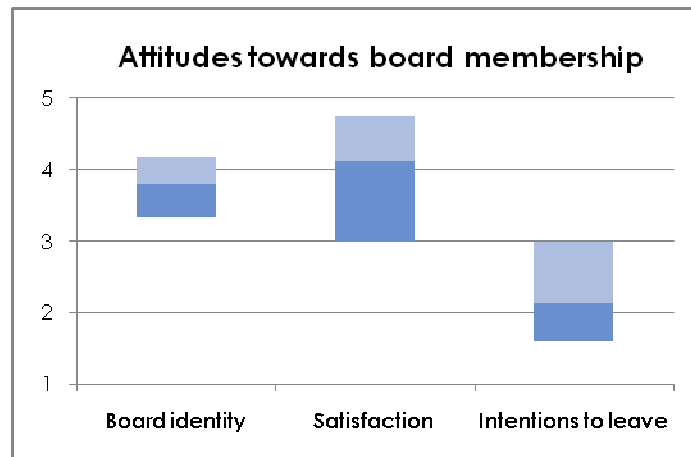
We have no benchmark data to compare remuneration levels.

These graphs indicate whether board members are reimbursed for a variety of expenses they may incur in the course of performing their board duties, and how satisfied they are with the reimbursement arrangement.



We have no benchmark data to compare reimbursement arrangements.

The final set of graphs in this section looked at overall attitudes of your board members to their role. It covered three key aspects of the role, namely: whether board members identified with the role; whether they were satisfied with the role; and whether they intended to leave.

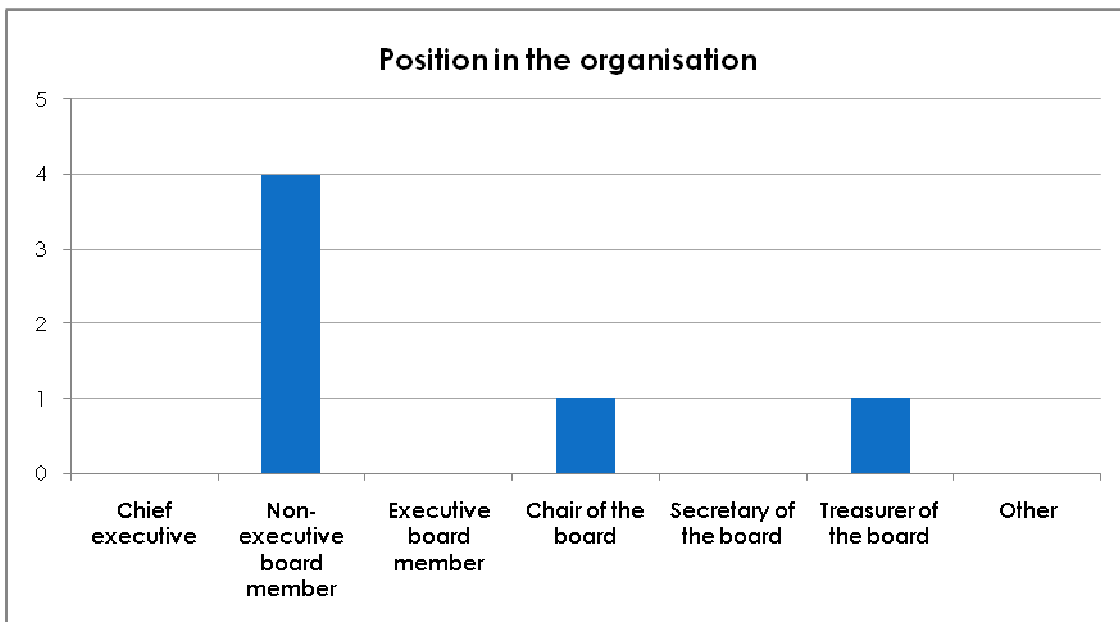


- **Board identity** is a measure of how much board members identify or relate to being a member of this board. The higher this score, the more they think of themselves as board members, which should affect their decision making, motivation, and so on. A board made up of individuals who have not served on boards before may not score highly on this, and it may mean that they do not “think” like board members.
- **Satisfaction** reflects overall feelings about the work performed on the board, the board itself, and the organisation.
- **Intentions to leave** is a measure of intention to resign from the board. This is another reverse coded item, therefore a lower score is preferable.

We do not have any validated benchmarks for you to compare in this series of items.

## BOARD DEMOGRAPHICS

In total, six people from your organisation responded to this survey. The following graph details the positions held by respondents. Unfortunately we do not have any benchmark data at this time.



### Average board tenure:

The current average board tenure reported by respondents was 12 months.

### Percentage of meetings attended:

Members of this board reported that they had, on average, attended 74% of meetings in the past 12 months.