BOARD EVALUTION:

A practical guide for evaluating boards as a collective in the not-for-profit sector

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ENGAGING Young Leaders ON Aged Care & Community Boards

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The continuous governance improvement challenge

Good governance principles and practices are constantly evolving. Multiple royal commissions have uncovered some of the challenges boards face in ensuring that they are performing. It is important that not-for-profit boards and executives are constantly asking themselves a number of good governance questions.

How well does my Board…

*In order to respond with answers to these and other questions, boards must undertake some form of regular **board evaluation.***

What is board evaluation?

Board evaluation is the procedure for assessing a board's performance relative to its objectives, on a regular basis.

"Companies should have and disclose a process for periodically evaluating the performance of the board, its committees and individual directors" – ASX Corporate Governance Council, 2014

There is increased attention on corporate governance, accountability and the regular evaluation of boards and individual directors as a result of recent and upcoming royal commissions.

Historically, board success was measured purely by reference to financial measures, such as profitability and share price growth. This is now considered inadequate, particularly in the not-for-profit (NFP) sector.

The goal of each organisation is obviously to be successful, however this does not necessarily equate to an effective board, and therefore it is important that board performance is also evaluated.

Board evaluation is first and foremost about continuous governance improvement, as opposed to critiquing individuals, and will result in actions that improve the ability of individuals and the collective to contribute to the work of the board.

There are a number of important questions that must be clarified before commencing board evaluation (Kiel and Beck, 2006):

Q. What are the purpose and objectives of the evaluation?

Q. What will be evaluated?

Q. How will the evaluation be done?

Q. What evaluation method will be used?

Q. What will we do with the results?

Q. How can we make the results drive continuous improvement?

Why conduct board evaluations?

The primary benefit of board evaluation is continuing the improvement in board performance and effectiveness.

"High standards of corporate performance and governance benefit the company, the economy and the community. A critical element in achieving higher levels of performance and effectiveness is a continuing improvement in board performance and effectiveness. To ensure this is occurring, boards need to adopt a process of rigorous evaluation of their performance and that of their directors" Australian Institute of Company Directors, 2006

Potential benefits of Board Evaluation[2]

Leadership	Sets the performance tone and culture for the organisation
Role clarity	Enables clear distinction between roles and delegations of CEO, management, and the board
Teamwork	Builds relationships and trust
Accountability	Ensures directors understand legal duties and responsibilities and sets performance expectation
Decision making	Identifies individual and collective skill gaps
Board operations	Improves board efficiency, effectiveness and time management

The evaluation process can also be an effective team-building, ethics and organisational culture shaping activity, i.e. the process can be as important as the content.

The advantages of board evaluation are well established in corporate governance literature, the key issue today is not **whether** to evaluate, but rather **what kind of evaluation** best advances a particular board's effectiveness and performance (Kiel and Beck, 2006).

Options for evaluating boards (1 of 3)

There are a number of options for evaluating boards. Before selecting an evaluation tool, the design of the tool should be carefully considered to ensure it is the right fit for the board.

> ***"Behavioural psychologists and organizational learning experts agree that people and organisations cannot learn without feedback. No matter how good a board is, it's bound to get better if it's reviewed intelligently." Jeffrey Sonnenfeld, 2002***

There are a number of organisations and independent consultants now conducting board reviews with their own methodologies, tools and techniques. Before selecting a board evaluation tool it is important to consider the following design principles:

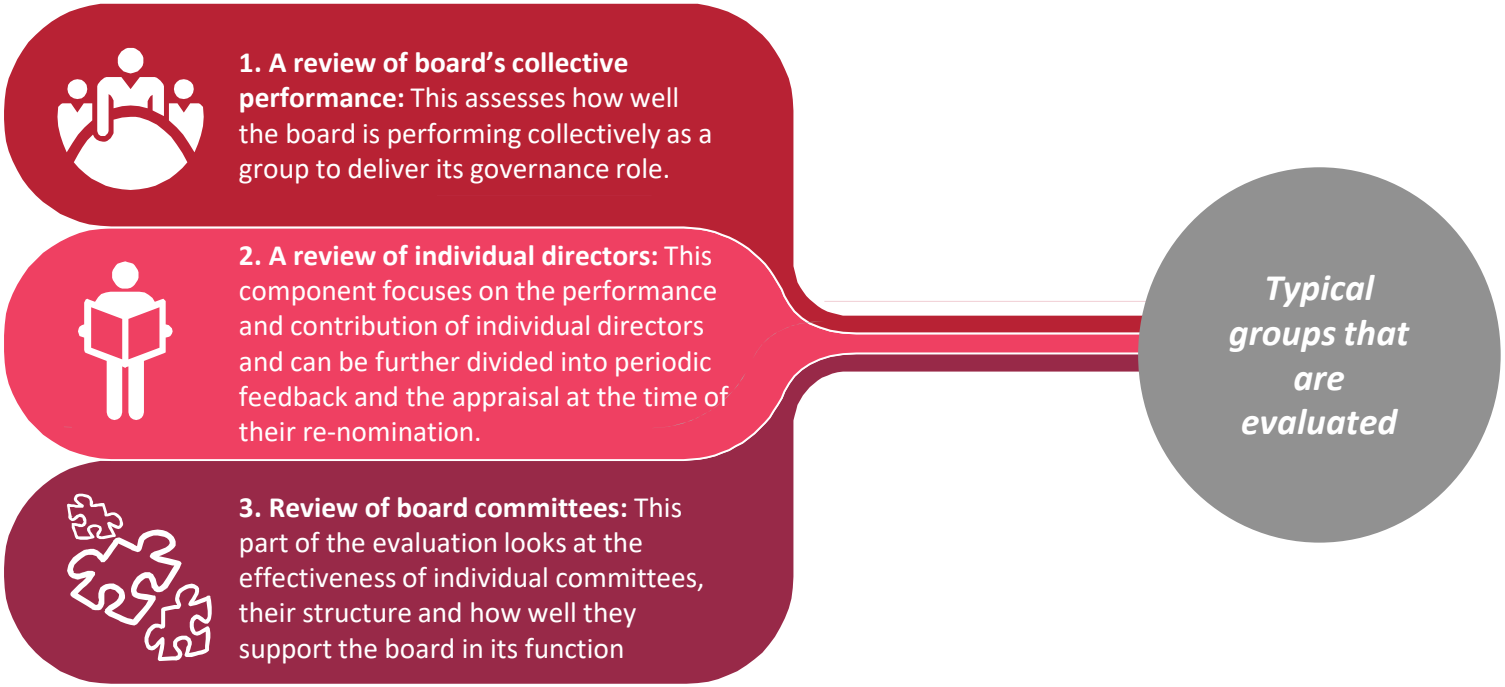
AICD's Design Principles:
The process should not be only designed to work when the board has a problem
The process is simple and easy to follow
The cycle of evaluation is adequate - evaluation should not be done more frequently than it can add value
The board should start with a collective review
Senior executives should be involved in the evaluation process
Questionnaires should be used in addition to interviews
The process should provide confidentiality

In considering these design principles, you will ensure the evaluation method you select ***is right for your board.***

Options for evaluating boards (2 of 3)

Consider the scope of the review and which groups should be involved. Often scope of evaluation may be limited by constraints such as cost, human resources and time.

Comprehensive governance evaluations involve reviewing the performance of a wide range of individuals and groups. Boards need to consider reviewing three groups:



Resourcing constraints often preclude wide-ranging reviews, particularly in the NFP sector.

A board may focus on board-as-a-whole evaluation as a familiarisation tool to gauge the general level of performance and effectiveness of the board. One disadvantage of group evaluation is that only give a limited insight into performance/governance problems. It is recommended that once the board is content with its collective performance review process, the board progresses to the evaluating its committees, individual directors and chairperson so as to gain further insight into how the board is functioning (Kiel and Beck 2006).

Options for evaluating boards (3 of 3)

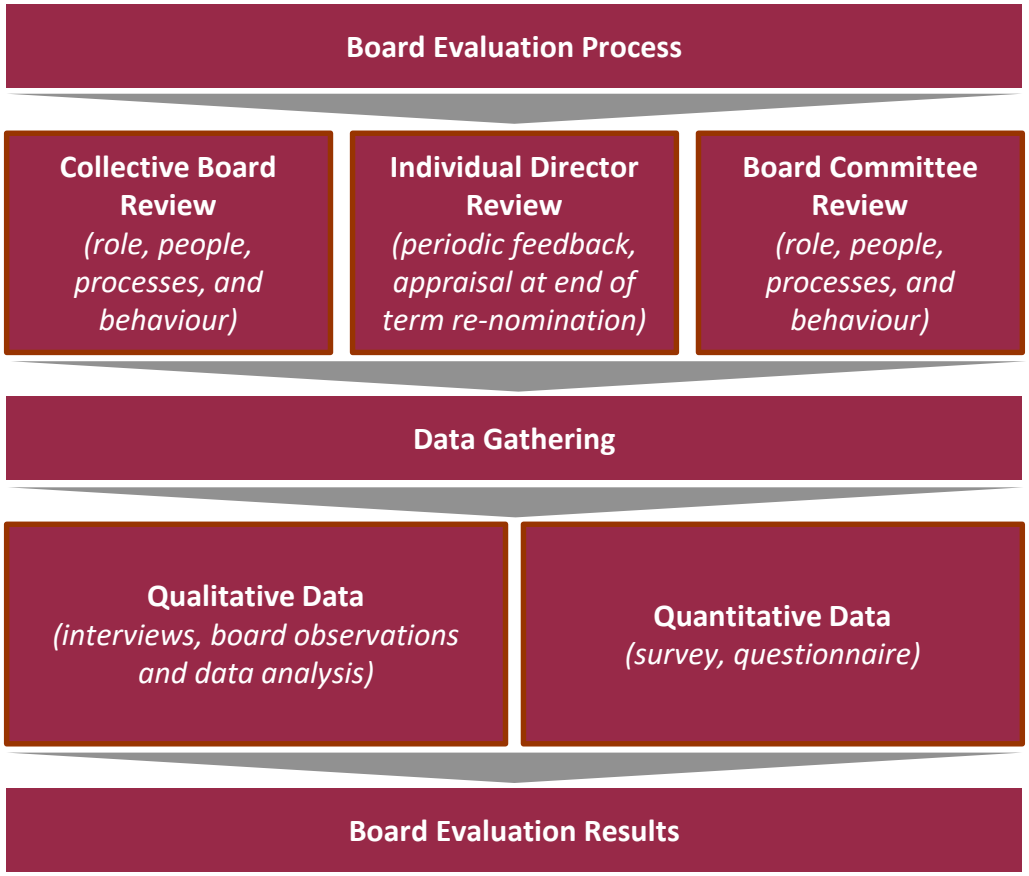
Board evaluations can be delivered internally or externally. Typically evaluations involve the selection of groups to evaluation, the collection of data to be used in the evaluation and the processing of data to give results.

Board evaluations are generally completed in one of two ways:

Internally Managed : This is usually managed by the board chair/ board administrator or the relevant board committee. It can incorporate survey tools and 1:1 interviews with individual director and executives to collect quantitative and qualitative data. Internally managed evaluations are cost effective and are usually considered less confronting for the directors.

Externally Facilitated : This is usually facilitated by an external consultant and attracts additional cost. It provides greater objectivity and offers the opportunity to bench mark be against the good governance practices of other boards within the sector.

Overview of the process for Board Evaluation



What is a Board Health Check?

In order to provide a practical, cost and time effective evaluation option for NFP Boards, we have developed a simple Board Health Check tool which enables boards to gauge how they are collectively performing in a number of key governance areas.

In order to provide a practical evaluation option for NFP Boards, especially those who may be time and/or resource poor, we have developed a simple tool (a 'Heath Check') which enables a Board to see, as 'snapshot' in time, how well it is collectively performing, as well as areas for board improvement.

A Health Check is a form of board evaluation. It involves a review of a board's performance and whether it is effectively carrying out its roles and responsibilities. The Health Check utilises the Australian Institute of Company Directors' (AICD) Good Governance Principles and Guidance for Not-for-Profit Organisations as a basis for determining the effectiveness of a board.

We have also developed an Action Plan template so that a Board can translate the findings of its Health Check into definable and measurable actions which can be monitored and progressed to achieve performance improvements.

Why choose to use the Health Check tool?

Advantages of a Health Check
Simple and easy to understand
Practical evaluation option for small NFPs with limited resources
Self evaluation tool and can serves as a basis for externally facilitated evaluation
Questionnaire is designed to assess board performance against the AICD's good governance principles
Thought provoking and insightful questionnaire structure approach
Sensible rating and explanation for question for the respondent who may interpret it differently
Easy to analyse and draw conclusions for the improvement areas and strategies

How was the Board Health Check designed?

The Board Health Check tool was designed using the AICD's good governance principles for NFP organisations.

Below is the list of AICD's good governance principles (Australian Institute of Company Directors, 2019) and a brief summary of how an effective board operates within each of these domains. Individual activities and indicators which demonstrate whether a board is working effectively, are listed against each principle in the Health Check matrix.

AICD Good Governance Principle	
1. Purpose and Strategy	The board sets and regularly reviews the vision, purpose and aligning strategies for the organisation
2. Roles and Responsibilities	The board's individual board members clearly understand their legal responsibilities, the organisation's expectations of their role, and the role of the board as a whole
3. Board Composition	The board's individual board members possess a diverse range of complementary skills and experience to meet the strategic goals of the organisation
4. Board Effectiveness	The board implements and regularly evaluates its board structures and processes in order to increase its effectiveness
5. Risk Management	The board takes responsibility for identifying risks and establishing a risk management framework for the organisation
6. Performance	The board has developed appropriate measures or indicators to track the organisation's progress towards implementing its objectives and achieving its purpose
7. Accountability and Transparency	The board ensures the organisation's governing documents and key policies are made available, and stakeholders are regularly informed of the organisation's performance
8. Stakeholder Engagement	The board is committed to understanding the interests and needs of its stakeholders, and is committed to meaningful, ongoing engagement
9. Conduct and Compliance	The board sets and communicates its expectations of the conduct of the organisation's people, and investigates and discloses any breaches to its expectations
10. Culture	The board takes the lead in promoting, monitoring and evaluating a healthy organisational culture and ethical decision-making practices which meets purpose

Conducting a Board Health Check

The Board Health Check is a simple and templated four step process

Establishing an approach to a board health check is important for all types of organisations seeking to conduct an effective evaluation process. The health check however is only one aspect of the overall approach. What an organisation does with the results is just as important. Therefore we have designed a simple four step process, with accompanying templates that can be used to undertake a board health check in the NFP sector.

Conduct initial Board Health Check

The initial Board Health Check has been designed to:

- Provide NFP boards with a framework to evaluate itself against the AICD Good Governance Principles for NFP Organisations;
- Be individually undertaken by board members, and be easy to use with a simple red, amber or green rating; and
- Present a 'heat map' of where the greatest areas of opportunity for the board are to improve governance processes.

See page 13 of this document for the full Board Health Check

Discuss results amongst board members

Once the Board Health Check has been completed by individuals, results are shared and discussed to:

- Determine if there are areas of the Board Health Check that have been rated considerably differently by individual board members;
- Identify and discuss rationale behind ratings that are considerably different;
- Agree and document the final collective ratings for the Board Health Check; and
- Review the key strength and opportunity areas.

Agree and document an action plan

Using the final collective ratings for the Board Health Check:

- Discuss and agree what actions are required to address these ratings (these may include actions to further develop strengths, or address areas for development);
- Complete the Action Plan Template ensuring that each action has SMART components, i.e. Specific, Measurable, Accountable, Realistic and Time bound.

See page 16 of this document for the full Action Plan Template

Monitor progress to achieve improvement

Communicate the Action Plan to those that are responsible for the actions that have been defined (e.g. Company Secretary) and then monitor progress including the results at either at each board meeting, or out of session.

It is recommended that NFP organisations repeat this entire process on an annual basis to drive continual governance improvement.

Appendices: *Board Health Check Tool and Action Plan Template*

"A board's effectiveness may be greatly enhanced through regular assessments of board performance"

AICD, Good Governance Principles and Guidance for NFP Organisations

Board Health Check Tool (1 of 3)

AICD Good Governance Principle	Health Check Criteria	*RAG Status
1. Purpose and Strategy The board sets and regularly reviews the vision, purpose and aligning strategies for the organisation.	**1.1** The organisation has a clear purpose, vision and mission that are documented and understood by the board.	
	1.2 The board refers to purpose, vision and mission when making critical decisions.	
	1.3 The board has a clear strategic plan which aligns with the organisation's purpose and underpins all undertakings by the organisation.	
	1.4 The strategic plan links the organisation's purpose, vision and mission to the programs and activities conducted by the organisation.	
	1.5 Internal strengths and weaknesses and external opportunities and challenges are considered in the development of the strategic plan	
	1.6 The board has a clear process in place for the review of strategy, purpose, vision and mission which also involves broader consultation with internal and external stakeholders.	
2. Roles and Responsibilities The board's individual board members clearly understand their legal responsibilities, the organisation's expectations of their role, and the role of the board as a whole	**2.1** The board's roles and responsibilities are well described. For example there are documented delegation authorities, a clear distinction between board and management responsibilities, and board roles and responsibilities are in line with the constitution.	
	2.2 The board has a sound understanding of their roles and responsibilities. For example all board members understand their legal obligations.	
	2.3 The board carries out their roles and responsibilities to maximize opportunities for the organisation as a whole.	
3. Board Composition The board's individual board members possess a diverse range of complementary skills and experience to meet the strategic goals of the organisation	**3.1** The board defines what diversity is and sets associated targets (e.g. age, gender, cultural background, all abilities).	
	3.2 The board currently has met its diversity target.	
	3.3 The current mix of skills and expertise on the board is sufficient to meet the organisation's strategic objectives.	
4. Board Effectiveness The board implements and regularly evaluates its board structures and processes in order to increase its effectiveness	**4.1** The board has a defined induction process which provides a clear understanding of roles and responsibilities.	
	4.2 The board has procedures in place to assess that ensure: • Board meetings are run effectively; • Sub-committees contribute positively to the overall performance of the board; • All board members get opportunities to contribute; and • All board member are able to raise issues/concerns in a safe environment.	
	4.3 The board has timely access to the required information in a concise format to perform their roles and support decision making.	

***RAG Status Key**

The criteria is not met | The criteria is partially met | The criteria is fully met

Board Health Check Tool (2 of 3)

AICD Good Governance Principle	Health Check Criteria	*RAG Status
5. Risk Management The board takes responsibility for identifying risks and establishing a risk management framework for the organisation	**5.1** The board identifies risks and oversees the development of some form of risk register for the organisation.	
	5.2 The board establishes and oversees a risk management framework that outlines how a risk will be managed, monitored and reviewed.	
	5.3 There is a process in place to document and allocate risk mitigation strategies, and review the level of risk once mitigations are in place.	
	5.4 The board includes in its meeting agenda a standing item to discuss risk.	
	5.5 The board reviews the accuracy, relevancy and effectiveness of the risk management framework on an annual basis.	
	5.6 the board considers, approves and annually review's a risk tolerance policy which is appropriate for the organisation.	
6. Performance The board has developed appropriate measures or indicators to track the organisation's progress towards implementing its objectives and achieving its purpose	**6.1** The board oversees the development of policies and procedures regarding the appropriate use and management of financial, physical, human and intellectual resources.	
	6.2 The board develops or approves an annual budget which appropriately forecasts revenue and expenses, and sets boundaries in which resources will be used by the organisation to achieve its objectives.	
	6.3 the board is prepared to act decisively to changes in funding levels.	
	6.4 The board has a limited set of meaningful, measurable and realistic performance indicators that focus on their people, finances and customers.	
	6.5 The board directs, manages and develops the performance of the CEO.	
	6.6 The board has processes in place to measure the capability of the organisation's board, staff and volunteers and responds accordingly by building capacity.	
	6.7 The board ensures the organisation maintains solvency through working with management to determine and develop a reporting framework that accurately captures the organisation's financial position in a timely manner (which includes but is not limited to - comparative budget information, a cash flow summary, plans for investing and borrowing, assumptions and calculations behind budget items, calendarised costs and revenues).	
7. Accountability and Transparency The board ensures the organisation's governing documents and key policies are made available, and stakeholders are regularly informed of the organisation's performance	**7.1** The board ensures the organisation's governing documents and policies are made available to stakeholders.	
	7.2 The board ensures stakeholders are regularly informed of the organisation's performance and financial position.	
	7.3 Stakeholders have the opportunity to ask questions and hold the organisation to account. This is achieved through holding an annual general meeting, open to all stakeholders.	

***RAG Status Key**

The criteria is not met | The criteria is partially met | The criteria is fully met

Board Health Check Tool (3 of 3)

AICD Good Governance Principle	Health Check Criteria	RAG Status
8. Stakeholder Engagement The board is committed to understanding the interests and needs of its stakeholders, and is committed to meaningful, ongoing engagement	**8.1** The board has a stakeholder engagement framework that identifies the organisation's stakeholders and: • outlines the needs and interests of each stakeholder group; • identifies opportunities and challenges presented by each stakeholder group; and • articulates the way in which the organisation will engage with each stakeholder group.	
	8.2 The board has decision making process that considers how each significant decision will impact and may be impacted by stakeholder groups.	
	8.3 The board encourages and gathers feedback from stakeholders which can be (and is) used to: • inform and improve services and performance; • develop an understanding of how the organisation is perceived; and • identifies concerns, complaints and misconduct.	
	8.4 The board appropriately responds to complaints and has a policy that specifies who a complaint can be made to, how it will be handled, expected timeframes and the process for communicating resolutions.	
	8.5 The board engages with vulnerable people who are susceptible to harm or exploitation due to age, illness, trauma, or disability, and is aware of its obligations in relation to their care. The board has also ensured adequate systems and processes are in place to protect and prioritise the safety of those people.	
9. Conduct and Compliance The board sets and communicates its expectations of the conduct of the organisation's people, and investigates and discloses any breaches to its expectations	**9.1** The board is clear on what is, and what is not, acceptable conduct of staff, volunteers, directors and clients and enforces these requirements. The organisation has a code of conduct policy which outlines required standards of governance, standards of behaviour, consequences of breaches and conflicts of interest.	
	9.2 The board is aware of the legal and regulatory environment which is applicable to its organisation, and requires management to provide regular reporting on compliance, and investigating and remedying non-compliance / misconduct.	
	9.3 The board has a policy in place which requires the disclosure of actual, potential or perceived conflicts of interest and adequate actions to manage such conflicts of interest.	
	9.4 The board sets a culture of disclosure and ensures there is a whistle-blower policy in place.	
10. Culture The board takes the lead in promoting, monitoring and evaluating a healthy organisational culture and ethical decision-making practices which meets purpose	**10.1** The board has clearly defined the organisation's values and has aligned the culture with the organisation's purpose.	
	10.2 The board regularly seeks to measure cultural performance using staff surveys, review of staff turnover rates, client surveys, occupational health and safety reports and review of complaint registers. Cultural performance is a regular agenda item for board meetings.	
	10.3 The board ensures a reward and recognition framework is in place which rewards/incentivises actions in line with the organisation's purpose and culture (e.g. pay rises, bonuses, promotion, certificates of appreciation or public recognition of individuals).	
	10.4 The board makes or is prepared to make difficult decisions to respond to unacceptable behaviours.	

***RAG Status Key**

The criteria is not met The criteria is partially met The criteria is fully met

Action Plan Template

Ref	Improvement required	Action	Who needs to be involved	Monitoring	Associated risks?	Timeline	Dependencies
Health Check Reference #	Based on the results of the Board Health Check criterion, what improvement is required?	Describe each action. Each action should have SMART components, i.e. Specific, Measurable, Achievable, Realistic and Time bound.	For instance who is responsible for the action? Who needs to be kept informed of progress on it?	How do we know if it's been successful?	What risks are involved and how can you plan to mitigate them?	When does it need to be done by?	Does the action depend on anyone else or the other actions or work being done?

Action Plan Template (example)

Ref	Improvement required	Action	Who needs to be involved	Monitoring	Associated risks?	Timeline	Dependencies
Health Check Reference #	**Based on the results of the Board Health Check, what improvement is required?**	**Describe each action. Each action should have SMART components, i.e. Specific, Measurable, Achievable, Realistic and Time bound.**	**For instance who is responsible for the action? Who needs to be kept informed of progress on it?**	**How do we know if it's been successful?**	**What risks are involved and how can you plan to mitigate them?**	**When does it need to be done by?**	**Does the action depend on anyone else or the other actions or work being done?**
8.3	*The Board needs to develop and foster connection and direct dialogue with stakeholders around their needs, interests and views to better tailor service offerings.*	*Effective from the next board meeting (5 May 2019), prior to or at each board meeting:* • *a staff member or client/client representative will be invited to share their experiences and views; or* • *the board will do a site / service visit.*	*The CEO will invite a staff member or client/client representative to attend a board meeting or will organise a site/service visit for the board.* *All board members will participate.*	*The board will reflect on the relevant action taken at each board meeting. This will be included as an agenda item at each meeting.*	*Risk of miscommunication with stakeholders as to purpose of this action.*	*Effective from 5 May 2019 and then ongoing at board meetings thereafter.*	*Staff, client and client representative participation required.*
5.2	*The board needs to establish a system to monitor how identified risks are being managed by the organisation.*	*Effective from the next board planning meeting, a status report on the organisation's risk management framework is to be included in the board pack and 'Risk Management' to be made a standing item on the board meeting's agenda.*	*The CEO or delegated staff is required to prepare and distribute the status report in board packs.* *All board members will be required to review the report.*	*The board will review the effectiveness of the status reports in reviewing the organisation's risk management system at the following annual planning meeting.*	*The status reports require additional resources from the organisation to prepare.*	*Effective from next planning meeting, with a 12 month review.*	*None.*
3.1	*The board requires targets to increase diversity.*	*At the next board meeting, 'Board Diversity' is added to the board meeting agenda in order to:* • *define what diversity means for the organisation;* • *set targets on achieving its diversity goals; and* • *determine the strategies it will take to meet its targets.*	*All board members to participate.*	*The board will review the effectiveness of the strategies it has taken in increasing diversity bi-annually.*	*Board members are not aware of the benefits of diversity, and do not invest time in meeting diversity targets.*	*Effective from the next board meeting.*	*CEO support required.*

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Further resources

Board Functions and Responsibilities

Guide for Community Board Members (Westpac)

INC: A Guide for Incorporated Associations in Western Australia (Department of Mines, Industry Regulation and Safety)

The Critical Role of the Board in Effective Risk Oversight (Ernst & Young)

Strategic Plan Development (AICD)

5 Key Culture Questions for Boards (AICD)

The Board's Role in Corporate Culture (Ernst & Young)

Board Diversity

The Importance of Diversity for Good Governance (Diligent Insights)

Why Diversity on Boards Makes Sense (and tips on how to accelerate change) (Institute of Company Directors Australia)

Board Evaluation Resources

Is Your Board Ready for Self-Assessments? (Maine Association of Non-profits)

Seven Steps to Effective Board and Director Evaluations (Effective Governance)

Board effectiveness quiz (Institute of Community Directors Australia)

Board member effectiveness quiz (Institute of Community Directors Australia)

Board Self-Assessment Questionnaire (The New Hampshire Centre for Non-profits)

Nonprofit Board Self-Assessment Tool (free) (McKinsey & Company)

Sample self-appraisals for the board as a whole and individual board members (Evangelical Council of Financial Accountability)

Successful board self-assessments (BoardSource)

Tip sheet for encouraging candid conversations with the board (National Council of Non-profits)

Individual Board Member Self Evaluation (Minnesota Council of Non-profits)

www.youngleadersonboards.com.au