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Governance

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# Policy Brief

## ***“How Good is our Board?” How Board Evaluations Can Improve Governance***

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The Institute On Governance (IOG) is a Canadian, non-profit think tank founded in 1990 with the mission to improve governance for public benefit, both in Canada and abroad. We define governance as the process whereby power is exercised, decisions are made, citizens or stakeholders are given voice, and account is rendered on important issues.

We explore what good governance means in different contexts. We undertake policy-relevant research, and publish the results in policy briefs and research papers.

We help public organizations of all kinds, including governments, public agencies and corporations, the voluntary sector, and communities to improve their governance.

We bring people together in a variety of settings, events and professional development activities to promote learning and dialogue on governance issues.

The IOG's current interests include work related to Aboriginal governance; board governance; values, ethics and risk; building policy capacity; democratic reform and citizen engagement; voluntary sector governance; health and governance; accountability and performance measurement.

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**The New Rules of the Board Game: The Changing World of Corporate Governance and Its Implications for Multilateral Development Institutions**, by Tim Plumptre (February 2004)

**From Jeans to Jackets: Navigating the transition to more systematic governance in the voluntary sector**, by Tim Plumptre and Barbara Laskin (2003)

**Policy Brief No. 15: Principles for Good Governance in the 21<sup>st</sup> Century**, by John Graham, Bruce Amos and Tim Plumptre (August 2003)

**Policy Brief No. 13: Reinvigorating Democracy: Dealing with September 11<sup>th</sup> through Modern Town Hall Meetings**, by John Graham (September 2002)

**Policy Brief No. 8: Getting the Incentives Right: Improving Financial Management of Canada's First Nations**, by John Graham (May 2000)

## Boards: Under the glare of the spotlight

*"Everyone knows what boards have been: gentlemen's-club-era relics characterized by ceremony and conformity. And everyone knows what boards should be: seats of challenge and inquiry that add value without meddling and make CEOs more effective but not all-powerful."<sup>1</sup>*

Never has the glare of the spotlight been more squarely focussed on boards of directors. Governance is an increasingly hot topic and a spate of corporate scandals around the world has only turned up the heat. Renewed rigour is being called for – not only in the corporate world but throughout government and non-profits as well.

In response, many board directors are asking, how good is our governance? This raises the related question: what kind of assessment or evaluation will provide a reliable answer?

At first blush, evaluating a board may seem a simple task. Upon closer inspection, however, this prospect raises complex issues. The purpose of this note is to help board chairs and others to understand both the potential and the pitfalls of evaluations.

### Why evaluate?

An evaluation can serve many different purposes. Perhaps the goal is to spot missing governance functions, or gaps in the governance fabric. Possibly it's to identify weaker performers on the board and to encourage improvement. Or, is the goal to build a better shared understanding of governance, and to weld the board into a team?

Do you want the evaluation to provide an agenda for short term improvements – such as better-run meetings, or improved staff support? Or should it provide the basis for a longer-term program to build board capacity? After all, a board is only as good as its people. Is the evaluation to be a vehicle to help get rid of dead wood and bring in new blood?

For non-profit organizations, another reason to conduct an evaluation might be to satisfy the requirements of funders. Some funders – both foundations and government agencies – are realizing that recipients' governance capacity should be taken into account in funding decisions. If this is a consideration, then it would probably be worth finding out what criteria your funders are using when they ask, how good is your governance?

The purpose of an evaluation should influence plans for all aspects of its execution. It should shape the kinds of questions that are asked, the resources committed to the initiative, the time frame for execution, and the methodology. Its purpose should also influence the scope of the follow-through program – because, of course, an evaluation is not an end in itself.

An evaluation should lead to tangible improvements. Unless its proponents have figured out how they will *use* its results, there is a danger that those results will just wind up as a few statistics in a binder somewhere. Our experience is that changes in governance practices require time and persistence. The follow-up will almost certainly take longer than the evaluation itself. Therefore it's worth asking, will the proponents be around long enough to see change through? If not, boards being what they are, inertia may simply cause old practices to reassert themselves, and the evaluation may not lead to any real progress.

Finally, underlying the question, "why evaluate?" is the more basic one: what kind of board do you want to have? Boards differ greatly. What do your circumstances call for? Do you need an oversight board that keeps an eye on how operations are running? Do you also expect your board to be proactive, playing a strategic leadership role? Does it have an advocacy role – a government relations function? Where do you need to put your emphasis, given your organization's circumstances? Your answers to these questions will help you to determine how the evaluation process can be used to pilot your organization in the right direction.

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<sup>1</sup> Nadler, David A., "Building Better Boards", *Harvard Business Review*, (May, 2004), 102.

### Where should evaluation focus?

Let's assume your goals are clear, and you have thought through how the results will be reported and considered. The next matter to ponder is the particular focus of the evaluation. There are three areas where the searchlight of review might be directed: Participation, Process and Performance.

**Participation** examines the involvement of the individual board member. By law, board members have fiduciary responsibilities – the duty of care, the duty of loyalty, and various other duties – that they are expected to discharge. The kinds of questions one might ask at the level of individual board members are:

- do members understand what their responsibilities entail?
- do they understand – and subscribe to – the role of the board?
- are they familiar enough with the organization's business to make intelligent contributions to the board's work?
- do they arrive prepared at meetings? do they participate constructively?
- do they discharge the tasks or roles they may take on in a responsible manner?
- collectively, do the participants on the board bring the mix of expertise, connections, and personal attributes that will meet the organization's needs now, and in the next few years?

**Process and system** evaluations are concerned with how the board and its committees operate, the role played by the chair, and the support provided to the board by staff. Many questions may be asked here. Some examples:

- what role does the board chair, or executive committee, play in formulating the board's agenda?
- what is the board's 'diet'? Does it focus on issues related to its governance responsibilities, or is its time consumed with side issues or staff briefings "for information"?
- does the chair run the meetings well? Is there good discourse and broad participation by members?
- does the board culture encourage frank discussion or are there unspoken rules that limit what may be said?

- does the board receive the information it requires to monitor performance at a strategic level? Is this information presented in a form that busy board members can understand?
- do documents for board meetings provide a good basis for decision-making?
- does the board (or chair) set objectives for the CEO?
- how well does the chair perform the job of reviewing the CEO's performance? – not always an easy task.

Some issues relate to the organization's governance *system* – the framework of policies and rules that define how governance activities will take place. For example:

- do committees, task forces have clear terms of reference? How do they report to the board?
- is the board equipped to exercise sound control over finances and executive compensation?
- are the roles of board officers clear?
- are there defined processes for the selection, recruitment and orientation of new board members?
- does the board have governance policies for topics such as conflict of interest, the role of the chair or external communication?
- does the board adhere to its bylaws? Are the bylaws themselves up to date?

**Performance** is concerned with the results or outcomes of board activity. This is where judgement is particularly required, as the issues are complex. Examples:

- does the board contribute effectively to the formulation of the organization's vision and strategy?
- is the board performing its risk management role well?
- does it exercise meaningful financial oversight?
- is the board aware of the organization's most important relationships (e.g. with stakeholders, key partners or members) and are these relationships sound?
- does the board have the capacity to handle an unexpected crisis if one arises?
- most basically, is the organization performing its mission effectively? Is it making a

contribution to social or economic well-being?

In each of these areas, there are other questions that could be included in an evaluation – this list is not exhaustive.

Responses to many of these questions involve a combination of fact and judgement. However the level of judgement, and the need to rely on qualitative information, increase significantly as one moves from participation to performance.

### **How to evaluate?**

Boards can be evaluated in a lot of different ways and at different levels. For example, some boards have adopted (with good results) the simple measure of asking a member to comment on 'how the session went' at the end of each meeting.

This kind of informal input can help to make board members more aware of the importance of practices such as sound meeting management. However, to get at more complex issues, a more formal approach to evaluation may be required, taking a more global look at board performance.

For this kind of review, there are two main ways of collecting information: through interviews (by phone or in person) or through questionnaires. The questionnaire itself can be either paper- or web-based.

Questionnaires are appealing. They are quick and inexpensive. There are lots of 'canned' versions around. They have a wide reach and the results can often be quantified, which facilitates comparisons and provides an aura of objectivity to the results.

However, there are pitfalls. Questionnaires can yield superficial, and sometimes even false, insights. For example: in an evaluation conducted by our Institute, we used a web-based questionnaire to identify issues of potential concern to a board. Results suggested that on most scales, this board was performing well.

But people sometimes fill out questionnaires by giving answers they consider appropriate. Later, in the course of private interviews, we learned there were major differences of views as to the board's role. There were problems of factionalism, micromangement, disagreements over committee roles and even efforts by one member to undermine the chair. None of this came out in the questionnaire responses.

Interviews avoid many of the problems associated with questionnaires. They can elicit nuances and provide opportunities to examine complex issues. As interviews progress and problems become clearer, later interviews can be used to test hypotheses and explore solutions. An experienced interviewer will usually be able to contribute constructively to discussions on how to deal with governance problems once the interview program is over.

The main downside of interviews, however, is that they take more time than questionnaires, and they tend to be more costly. Much depends, too, on the skill of the interviewer.

Some organizations opt for evaluations by board members themselves. Under this approach, members may rate themselves or each other, either verbally or through some sort of questionnaire. Comments may be collated by a designated board member, such as the head of the nominating committee, or perhaps some knowledgeable individual who is now out of the fray, such as a past chair.

Self-evaluations have the virtue of being less costly, but they need to be handled with sensitivity. To work well, the board must possess that often-elusive attribute – a culture of candour and mutual trust. Without this, the evaluative information shared by board members may be shallow or even misleading. And self-evaluations may find it difficult to explore some of the deeper dimensions of governance.

### **Dealing with results**

What will be done with the results? An evaluation has consequences. How you manage the output may lead to a better understanding of the board's role, a collective will to improve

performance, and a work program to effect it. But it may also lead to denial or blame-laying. It may even sow seeds of discord into a previously harmonious team environment

A board evaluation resembles a personal performance review. Anyone who has done one of these knows that it needs to be approached with care. In theory, reviews are opportunities to recognize an employee's contributions and to discuss any performance-related issues constructively. In practice, many employees approach these reviews with dread.

Evaluation proponents will want to think carefully about how to make their process inspiring, not demoralizing. In general, there is a good deal to be said for the use of an experienced ‘outside’ consultant or coach through an evaluative process. This can provide an element of objectivity that board members usually appreciate. If well-handled – and this is a very important *if* – it can produce deeper insights, lead to better follow-up, and yield more enduring results. But the extra costs involved may be beyond the reach of many boards, particularly those in the voluntary sector.

### **The role of the board chair**

The pivotal nature of the chair's job is often not well understood. The chair influences a wide range of governance-related matters. These include the appointment and evaluation of the CEO, recruitment to the board, the articulation of board members' responsibilities, the board agenda, how board meetings are run and the tone of those encounters, the motivation of individual board members, the terms of reference of committees, and committee membership.

For these reasons, the chair should be centrally involved in any evaluation. Other players to involve may be the vice-chair (who may have to carry the results of the evaluation forward), the head of the governance committee (if there is one) or the nominating committee (because the evaluation may highlight gaps in board capacity that need to be filled).

The chair will want to pay particular attention to timing. Most board members are busy people

with other interests. There is a limited number of issues a board can address at any time. A chair needs to be realistic about how much time an evaluation, and its consequences, will occupy on the board agenda, and how it may relate to other priorities.

Overall, a good chair will have a view as to how the evaluation and the follow up process can be used to shape the board and guide it toward a higher level of performance.

### **In conclusion...**

Board evaluation is making its way into the growing lexicon of principles that define what constitutes "sound governance". Increasingly, it is being seen as an attribute of a progressive board.

Progress toward the use of evaluations appears to be steady though not very rapid. In April 2004, the Institute of Internal Auditors did a survey of 109 organizations from various countries. When asked if the board assessed the performance of individual members, 71% said no.<sup>2</sup>

Perhaps the most basic evaluative question is simply this: does this board add value? Does it matter? Some boards are like containers on cargo ships: they occupy a lot of space on the deck but they are just dead weight. Other boards, however, are in the wheelhouse, helping to chart the course and navigate complex waters.

For those interested in having their board "in the wheelhouse", it is hoped that this note will illuminate the possibilities and options offered by evaluations. When used thoughtfully and strategically, evaluations can make a valuable contribution towards the attainment of that elusive but important goal, good governance.<sup>3</sup>

<sup>2</sup> Of the 109 corporations surveyed, 85 were American, 7 Australian, 5 Canadian and 3 British. About half were publicly traded companies. See <http://www.gain2.org/6april2004.ppt>.

<sup>3</sup> The author wishes to express his appreciation to Barbara Laskin for her insightful comments on earlier drafts of this paper, and to Jennifer Chandler for her background research.