Olive Grove
Consulting
CHAMPIONS OF THE COURAGEOUS

SAYING “I DO” TO BOARD COMMITMENT

‘Tis the season for couples in love to solidify their commitment through the institution of marriage, and all of the wedding bells are making us think more about commitment, that is, commitment to being a stellar Board member.

How Engaged Should We Be?

At the start of any board building program, the directors and the CEO need to agree what their level of involvement will be. The following are five possible board models, which fall along a continuum from least to most involved.

LEAST INVOLVED — MOST INVOLVED

The Passive Board	The Certifying Board	The Engaged Board	The Intervening Board	The Operating Board
- Functions at the discretion of the CEO. - Limits its activities and participation. - Limits its accountability. - Ratifies management's preferences.	- Certifies to shareholders that the CEO is doing what the board expects and that management will take corrective action when needed. - Emphasizes the need for independent directors and meets without the CEO. - Stays informed about current performance and designates external board members to evaluate the CEO. - Establishes an orderly succession process. - Is willing to change management to be credible to shareholders.	- Provides insight, advice, and support to the CEO and management team. - Recognizes its ultimate responsibility to oversee CEO and company performance; guides and judges the CEO. - Conducts useful, two-way discussions about key decisions facing the company. - Seeks out sufficient industry and financial expertise to add value to decisions. - Takes time to define the roles and behaviors required by the board and the boundaries of CEO and board responsibilities.	- Becomes intensely involved in decision making around key issues. - Convenes frequent, intense meetings, often on short notice.	- Makes key decisions that management then implements. - Fills gaps in management experience.

So how does your organization establish board commitment? Could your board evaluation process be more effective? Could an annual commitment letter help your board establish the accountability it lacks? As organizations seek ways to become more effective and make better decisions, boards of directors are looking to best practices within governance. High-performance boards must be competent, organized, and follow a shared agenda. However, most organizations don’t know where to begin when taking on the challenge of board development. At Olive Grove, we believe an annual commitment letter is an effective tool to create a framework for board evaluation and accountability, and there are many other ways to establish commitment depending on your board’s culture and preference.

The most obvious reason for utilizing an evaluation process is the desire to become a more effective and focused board. But, board development cannot be viewed as simply a process; it must be an ongoing activity and a process of continuous improvement, hence, the annual self-assessment. In a survey conducted by the Harvard Business Review and the University of Southern California, “conducting and acting on such assessments are among the top activities most likely to improve board performance overall…By making routine practice of rigorous introspection, boards ensure that they are fit to cope with existing circumstances and adapt to new ones.” Though many organizations conduct board evaluations, most do so using the wrong process and

Do We Have an Engaged Culture?

Engaged cultures are characterized by candor and a willingness to challenge. In each of the following areas, engaged boards reflect the social and work dynamics of a high-performance team.

Agendas
- The agendas limit presentation time and maximize discussion time.
- There is lots of opportunity for informal interaction among directors.

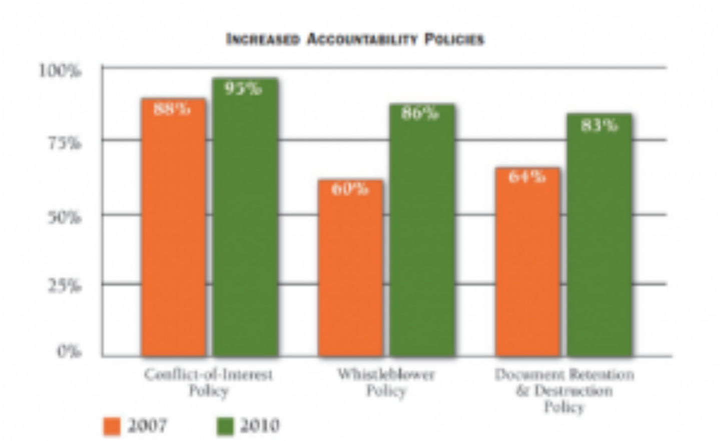
Norms
- Board members are honest yet constructive.
- Board members are ready to ask questions and willing to challenge leadership.
- Board members actively seek out other directors’ views and contributions.
- Board members spend appropriate time on important issues.

Beliefs
“If I don’t come prepared, I will be embarrassed.”
“If I don’t actively participate, I won’t be fulfilling my responsibility.”
“I’ll earn the respect of my fellow directors by making valuable contributions and taking responsibility for what we do together.”
“If I can’t carry my load, or if I can’t agree with what’s going on, I should resign.”

Values
- The board serves the business community by actively participating in governance.
- The board is responsible to the company’s various stakeholders and constituencies.
- Board members are personally accountable for what goes on in the company.
- The board is responsible for maintaining the company’s stature in the industry.
- Board members respect one another.

mindset. Typically, evaluations are based on board members rating themselves and/or the board as a whole. The problem that arises is that individuals are rating themselves, many times, without any evidence to support their evaluation results.

In order to begin the process correctly, boards must determine their desired level of engagement, in terms of decisions and overall direction, doing so provides a framework for developing the right process for evaluation. Once the level of engagement is established, the board can begin setting goals, expectations, and rules relative to members' roles. One of the most common strategies is to conduct a strategic governance and operations audit, along with a board evaluation to cross check results. Survey data shows that 92% of nonprofits hire an auditor to conduct an annual external financial audit, yet, a strategic governance and operations audit is a much more in-depth process that is not often fully resourced. Such an audit is conducted by an independent person, whose job is to evaluate the board's main focus areas, such as processes, compliance and operational issues, and any additional areas that many influence board performance. According to *The Problem With Board Evaluations* by Steven Bowman, when evaluating these focus areas "it useful to identify whether the policies or procedures actually exist and address the key issues, whether they are documented and communicated, and whether they are in operation and applied consistently." Although utilizing an audit can be an important part of the evaluation process, developing and conducting an effective board evaluation is the most significant and difficult step to achieving accountability and long term commitment.



THE NUMBERS	BEHIND THE NUMBERS
92% of nonprofits hire an auditor to conduct an annual external financial audit.	Nearly all nonprofits have an external, independent audit. Some nonprofits put in place additional checks-and-balances on financial oversight and disclosure. 50% of boards meet as a full board with the auditors. 30% post their financial statements to their Web site, and 27% have a stand-alone audit committee.
95% of nonprofits have a written conflict-of-interest policy.	The number of nonprofits with written conflict-of-interest statements has jumped from 88% in 2007 to 95% in 2010. Likewise, 87% — compared to 67% in 2007 — require annual disclosure statements. In addition, 73% now have a written statement of ethics, compared to 69% in 2007.
Roughly 85% of nonprofits have SOX policies.	Whistleblower and documentation retention and destruction policies emerged out of the Sarbanes-Oxley (SOX) Act of 2002. As of 2010, 86% of nonprofits have whistleblower policies, and 83% have document retention and destruction policies. While these policies are not required by law, they are asked about on the new IRS Form 990, which probably accounts for the notable increase over since 2007, when 60% had a whistleblower policy and 64% had a document retention and destruction policy.
95% of nonprofits carry D&O insurance.	95% of nonprofits carried directors and officers (D&O) liability insurance for the board in 2010, up from 81% in 1999.

There are a number of different ways to develop a board assessment/evaluation, however, the contents should include the levels of board engagement, strategic activities and priorities, goals, and evidentiary support. Accountability should be inextricably linked with the organization’s values, vision and strategy. It should apply to long-term objectives and inform day-to-day decision-making, driving better processes and oversight. The article, *Building Better Boards*, published by the Harvard Business Review, offers an example of an assessment form to rate levels of board engagement relative to business activities and determine areas where the board must place more attention compared to the areas where time and resources are actually spent. The singular aspect missing from the assessment example is an area to provide evidence for the rating each member provides. Evidence for support is essential when conducting board evaluations to ensure validity of responses. As the article mentions, “By comparing actual and desirable levels of engagement for each activity, the board can plot in great detail where to pump up or down its energies.” Similarly, comparing members’ views of the board’s activities and focus areas may bring to light differences that could potentially arise down the road, when more is at stake.


Which Tasks Are Most Important?
Current Engagement
Desired Engagement
The Gap

At Olive Grove we believe that accountability is more than simply meeting the bare minimum requirements; rather, oversight should be the product of a more comprehensive approach to accountability. True accountability will drive appropriate oversight and transparency, but will deliver far more. Mere oversight, however, will never drive real accountability. Real accountability results in: more effective mission delivery, increased commitment, better relationships with funders, clients, staff, and volunteers, more flexibility to deal with your ever-changing environment, a stronger, more productive, and more sustainable organization. As a result, when working with clients, we suggest using an annual commitment letter as a helpful tool in creating a framework for board evaluation and accountability. The framework we have developed includes a statement of responsibilities, individual expectations, an explanation of meetings, legal and governance duties, resignation and removal, and the responsibilities of the organization to the individual.

By signing the letter of commitment, the individual board member agrees to the aforementioned responsibilities and to act in pursuit of the organization’s goals and overall mission. The most significant benefit of such a letter is that it provides the board with something tangible to refer to when evaluation members and the board as a whole. For example, within the expectations section, a board member indicates his/her responsibilities/goals and expected achievements within the given time frame. Identifying each member's specific duties offers the board a reference point when evaluating performance at the end of the year, thus providing actual evidence for evaluation ratings. Similarly, including an outline of the board's responsibilities and priorities for the year establishes a framework to follow. If by chance the board finds itself drifting away from its goals, the letter of commitment can be used to get back on track and move towards achieving the intended goals. In turn, this also provides a tool to evaluate the board's performance overall, displaying the areas where resources and time was spent and if more or less should have been applied to the intended priorities. Nevertheless, the process does not end after board evaluation results are gathered; in order for real change to occur, the board must establish a strategy to carry out the changes that relate to the evaluation results. Based on the results, the board must develop new proposals; determine which should be acted upon, who is responsible, and when it should be implemented. Once the process is complete, the board will have developed a functional strategy for the board along with the accountability necessary to ensure that the intended goals are carried out.

Links:

How Engaged Should We Be?

Do We Have An Engaged Culture?

Accountability Policies

Behind The Numbers

Which Tasks Are Most Important?

References & Resources:

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