



D.E.S.E.R.T.©

Directors' Effectiveness Self-Evaluation Research Tool

Written (&/or adapted) by **Dr Colin A. Sharp**

Managing Director, P.E.R.S.O.N.A.L. Consultancy Pty Ltd;

78 Capella Drive, Hallett Cove, Adelaide, SA, Australia, 5158;

Ph/Fax: 08 8387 5569; mob = 0419 390 030

Email: PERSONAL.research@bigpond.com

According to one leading Australian authority (see Hilmer's 1993 report called *Strictly Board Room*):

“The board's key role is to ensure that corporate management is continuously and effectively striving for **above-average performance**, taking account of **risk**. This is not to deny the board's additional role with respect to shareholder protection.”

Basically two important duties of Boards of Directors are:

- to **monitor the performance** (both financial and non-financial) of the organisation
- to evaluate, and assure shareholders, whether the organisation has the capacity to achieve its objectives.

In order to execute these duties for effective corporate governance the Board of Directors' should clarify what is a reasonably expected level of competence, and performance of the Directors. To do so the Boards of Directors would need to conduct a self-evaluation in conjunction with an evaluation of the performance of the organisation in accordance with its strategy, and taking account of the relevant risks .

The following Self-Assessment Tool is being developed to help Directors do their own preliminary self-evaluation of, for example, their role and value-added. It is designed to be used by the Board members and Chief Executive Officer of organisations in the not-for-profit (including public sector) human services. It is intended primarily for self-evaluation and research. But it is expected to be at least as useful as any other self-evaluation tool for Directors because it focuses on being clear about the information needed for the situation and about learning how to set up self-evaluation systems. This is not a quick-fix approach. But it will help Directors to identify the strengths and weaknesses of their information and evaluation systems.

Two of the functions of this form are to help Directors find out about their evaluation role and share our research information with the participants. So please return a copy of the forms, with any comments, and your contact details, to Dr Sharp at the address above. If the Board of Directors wishes, Dr Sharp can collect the responses, and collate the results and write a summary of the findings for the Board to then review together.

We would be interested in the experience of Directors with other self-assessment tools for comparative research. Specifically it would help the research and the improvement of the tool, if you could compare the D.E.S.E.R.T. with McNamara's (eg. see page 10 attached, 1999 Free Toolkit for Boards of Directors). Generally it is suggested that each Board Director, and the Chief Executive Office, should complete the form separately prior to a board consultative meeting. This may be useful to help participants clarify the strategic issues raised. But please ensure that each Director's own suggestions (anonymously if requested) are available along with any group responses. Any material provided will be kept anonymous as far as the respondents are concerned. But the results will be aggregated and summarised for participants, so that while we may draw insights into the findings, no single individual or organisation can be identified.

If you intend to use the attached form, please fill in the appropriate blanks answering the questions below, regarding the criteria which could be used to evaluate the performance of the Board of Directors and for organisational performance evaluation. Most questions ask for you to define what you think is an acceptable standard for the criterion, and then to tick in the right column which fits your perception of the level of information available or the performance attained over the assessment period which you should nominate at the beginning (most likely in the last six months).

Suggested Steps In Using D.E.S.E.R.T. (see Figure 1 below)

STEP 1: What Strategic Scenarios do the Stakeholders See?

Identify key stakeholders and *consult with them* in identifying key types of risks associated with the organisation's strategic plan. Use the three Risk Assessment tables below to analyse their consequences and probabilities. The Board discusses question **3** of the D.E.S.E.R.T. form (p. 8 of the D.E.S.E.R.T. form below).

STEP 2: What are the Risks? Select the top areas of risk (including those identified as "high" and "extreme" in Table 3 on page 7 below).

STEP 3: What are the Competencies of Directors to deal with Risks? Identify any specific roles of the Directors (eg. Chair Audit Sub-Committee), and the level of experience and competence of the nominated Directors (questions 1 & 2 from p. 8 below).

[If acceptable it may help you and the research to review the Supplement (from p. 15) which shows a research tool developed by Dr McNamara in the USA on organisational governance in Not-for-Profit organisations and adapted to relate to Hilmer's reference to "above average performance"].

STEP 4: What can we control? The Board should have Internal Audit report(s) on the degree of control over the risk, so that decisions can be made about the costs and benefits of implementing controls to account for the risk(s).

STEP 5: What Standards and Goals Are Expected? and Self-Assessing Actual versus expected OUTCOMES of controls.

The Board meets and discusses and agrees on standards, ie., statements of expected level of directors' performance of their roles/duties (see CRTIERION column pages 7 - 11).. Edit these statements in column 2: "EXPECTED LEVEL". Edit the marginal statements in the 5 right hand columns "RATING OF THE ACTUAL EXPERIENCE / INFORMATION IN THE ASSESSMENT PERIOD" so that these summary statements make sense as brief versions of the variation of performance around the stated "EXPECTED" level in column 2. See example on page 7.

The Board periodically reviews its performance against these "EXPECTED LEVEL" statements and rate the performance by ticking the relevant level of the right 5 columns.

STEP 6: Identify any performance gaps and Prepare & Implement Plans to treat or avoid gaps and risk(s) while Accounting/Reporting to Stakeholders

STEP 7: Continue to monitor, audit and review, and/or change the EXPECTED LEVEL statements according to evaluation of plans and risks by Board and Stakeholders.

Figure 1 The Magical 7 steps (+ or - 2) of D.E.S.E.R.T.

(adapted from Sharp, 1994a; and based on AS/NZS 6350, 1995; CICA, 1998; MAB MIAC, 1996; Rickard, 1998)

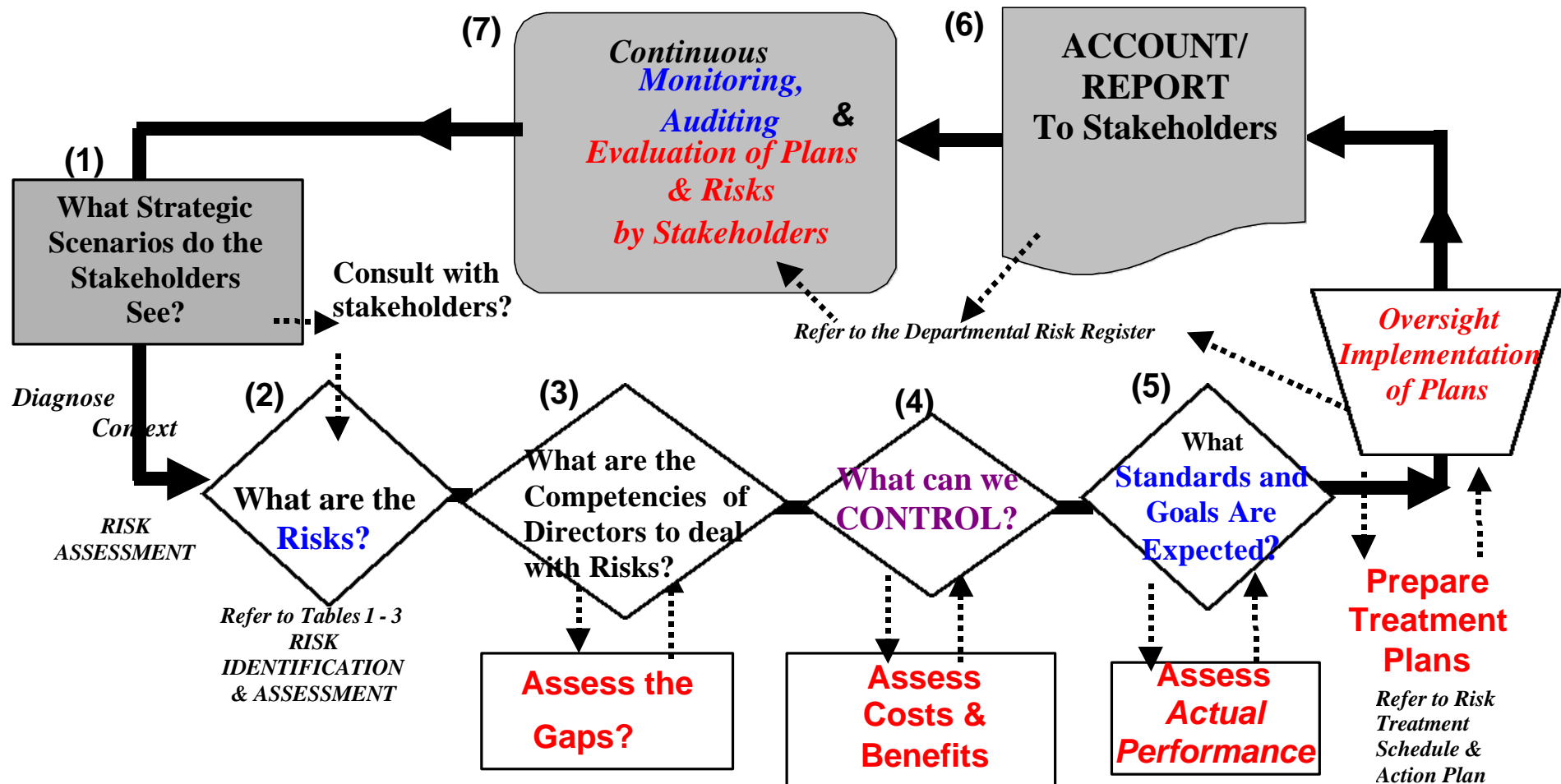


TABLE 1 RISK IDENTIFICATION AND ASSESSMENT RATINGS

(Based on tables from AS/NZS 4360, 1999, pp. 34 -35)

SCALE OF CONSEQUENCE OR IMPACT

Level	CONSEQUENCE DESCRIPTOR	COMPARE TO STANDARD (e.g., Medical analogy*)	GIVE EXAMPLE FROM THIS ORGANISATION
1	INSIGNIFICANT	No injuries, No one is inconvenienced Low financial loss Completely Recoverable	
2	MINOR	First aid treatment, on-site release immediately contained, Medium financial loss Someone experiences minor inconvenience Mostly Recoverable	
3	MODERATE	Medical treatment required, On-site release contained with outside assistance, Significant financial loss Significant inconvenience Somewhat Recoverable	
4	MAJOR	Extensive injuries, Loss of production capability, Off-site release with no detrimental effects, Major financial loss Unacceptably high inconvenience Unlikely to Recover	
5	CATASTROPHIC	Death(s), Toxic release off-site with detrimental effect, Whole system collapse Total financial loss Unrepairable/ Unrecoverable	

*NOTE: Identify the anchor points (e.g. what do 1, 3, and 5 mean) on the **scale of consequences** for your situation;
Indicators used should reflect the needs and nature of the organization and activity under study.

TABLE 2 RISK ASSESSMENT

(Based on tables from AS/NZS 4360, 1999, pp. 34 -35)

QUALITATIVE MEASURES OF LIKELIHOOD OF RISK

Level	<i>Descriptor</i>	Description	Give Example From This Organisation
A	Almost certain	Is expected to occur in almost all circumstances, or very frequently	
B	Likely	Will probably occur in most circumstances, most of the time	
C	Moderate	Might occur at some time in some circumstances	
D	Unlikely	Could occur at some time, but not expected	
E	Rare	May occur only in exceptional circumstances, or very infrequently	

Any COMMENTS on how the Boards of Directors *assess risk* in this organisation:

TABLE 3: QUALITATIVE RISK ANALYSIS MATRIX--LEVEL OF RISK

(PUT EXAMPLES FROM THIS ORGANISATION IN THE CELLS)

(Based on table from AS/NZS 4360, 1999, pp. 34 -35)

<i>Likelihood</i>	CONSEQUENCES				
	INSIGNIFICANT 1	MINOR 2	MODERATE 3	MAJOR 4	CATASTROPHIC 5
<i>A. Almost certain</i>	High	High	Extreme	Extreme	Extreme
<i>B. Likely</i>	Moderate	High	High	Extreme	Extreme
<i>C. Moderate</i>	Low	Moderate.	High	Extreme	Extreme
<i>D. Unlikely</i>	Low	Low	Moderate	High	Extreme
<i>E. Rare</i>	Low	Low	Moderate	High	High

NOTE: In assessing the information needs of the Boards of Directors:

Identify the anchor points (e.g. what do 1, 3, and 5 mean) on the **consequences scale** (in Table 1) for your situation;

Identify the anchor points (e.g. what do A, B, and C mean) on the **likelihood scale** (in Table 2) for your situation;

Combine the assessments from Tables 1 & 2 to determine whether your situation is **high or extreme risk** (in the shaded cells of Table 3 above);

If in the **grey risk areas**: The Board needs to gather as much information as possible and set up a thorough strategic evaluation system **without** concern for cost, time or inconvenience to the Board and management; as **due diligence demands some action in these areas** (e.g. insure, or prevent).

If in the *low or moderate risk* categories (not shaded): The Board needs to assess the costs and benefits of the information and evaluation strategy in terms of the cost, time or inconvenience to the Board and management; but as **due diligence demands, some decision should be made about the risks in these areas**. In all cases the Boards of Directors must determine how to communicate about the risks to the stakeholders.

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TO BE ADDRESSED BY THE EXECUTIVE & DIRECTORS OF _____ (organisation)

Name (optional): _____ **Your Role** on the Board: _____ Date: _____

1. Your Level of Competence and Experience in Management or Corporate Governance is useful background information for the research; please indicate the level and type, as follows (tick as many as appropriate on the left and identify the level of experience on the right):

Type of Management experience:	Type of Corporate Governance experience:
<input type="checkbox"/> attended courses on management techniques; _____ years <input type="checkbox"/> gained <i>award/qualifications</i> in management; _____ degrees <input type="checkbox"/> years experience in frontline/middle management; _____ years <input type="checkbox"/> years experience in <i>top</i> management; _____ years <input type="checkbox"/> years experience in consulting to top management ; _____ years	<input type="checkbox"/> attended courses on governance techniques; _____ years <input type="checkbox"/> gained <i>award/qualifications</i> in Directorship; _____ degrees <input type="checkbox"/> years experience in Directorship; _____ years <input type="checkbox"/> years experience in Chairing Boards; _____ years <input type="checkbox"/> years experience in Committees of Boards; _____ years
Any relevant Comments:	Any relevant Comments:

2. Your Experience of the Board Effectiveness Evaluation Process

(A). Have you been involved in an evaluation of the effectiveness of a Board of Directors? (please tick one box)

- Yes (not-for-profit organisation)
 Yes (for-profit organisation)
 please go to 2 (B).
 No (not at all)
 please go to the next page

Any relevant Comments:

(B). **If Yes to part A:** (*In the organisation referred to in part A*) Did you receive **enough information to make a judgement about the effectiveness of the Board?** (please tick one box, and add relevant comments)

- not enough;
 satisfactory;
 more than enough;
 cannot make judgement on the information given

Please briefly explain your reasons for thinking this way:

3. What level and type of risk does the organisation face in a worst case scenario? (please pick one of the following based on the AS/NZS Standard 4360 in Tables 1 - 3) **Low;** **Moderate;** **High;** **Extreme.** (give worst case example)

(A). Has the Board of Directors (or CEO) conducted a full risk assessment? (please tick one box)

Yes (using the AS/NZS 4360 standard)

Yes (using another approach) ⇒ please compare to Tables 1, 2 & 3

No (not at all) **P please go to Tables 1, 2 & 3 then re-assess the risk level on the following range:**

Low; **Moderate;** **High;** **Extreme.**

Any relevant Comments about risk assessment by the Board of Directors:

(B). **If Yes to part A:** (*In the organisation referred to in part A*)

Did the Board (or CEO) take into account the risk assessment to determine what types and amount of data and reports would be **enough to provide sufficient information to make a judgement about the effectiveness of the Board?**

(please tick one box, and add relevant comments)

Not at all;

cannot make judgement on the information given;

Yes but Informally;

Yes the CEO determined

Yes the Board determined

Please briefly explain:

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EXPECTED LEVEL OF INFORMATION, COMPETENCE & ACTUAL RATING

In the following questions please briefly **define what you think is an acceptable standard for the criterion**

(A *draft* definition is provided only as a suggestion for you to edit - if necessary expand the definition on the back of the page identifying to which criterion you refer), and then **tick in the right column** which fits your perception of the level of information available or the performance attained over the following

_____ assessment period since _____ (e.g. the *six months* since *July 1999*.)

For example respondent adds *italics*:

CRITERION	EXPECTED LEVEL	RATING OF THE ACTUAL EXPERIENCE / INFORMATION IN THE ASSESSMENT PERIOD				
		Much Less than Expected	Less than Expected	Expected	More than Expected	Much More than Expected
1. DIRECTOR'S ROLE / DUTIES	STANDARD Expected Level of Component of the Criterion [Draft Definition of Expected standard]					
a) Roles are Clear	[Board & CEO have written AND agreed understanding of the roles and responsibilities of the Board AND THE CEO]	<i>Not written/ Not Agreed</i>	Agreed BUT Not written	as in STANDARD (left column)	Written & Agreed & reviewed internally	Written & Agreed & reviewed AND Externally Audited

Any Comments about this scaling technique?

Any Comments about the process of identifying the expected standards?

Would you be interested (available in the next few weeks) for a brief follow-up interview on the questionnaire and this research?

Yes (at this organisation) Yes (at another organisation) please specify address*:

_____ No (not in the short term) No (not at all) please go to the next page

*Any relevant information about availability (contact telephone/fax)?:

**RATING OF THE ACTUAL
EXPERIENCE / INFORMATION AVAILABLE
IN THE ASSESSMENT PERIOD**

CRITERION

EXPECTED LEVEL

1. DIRECTOR'S ROLE / DUTIES	STANDARD: Expected Level of Component of the Criterion [Draft Definition of <i>Expected</i> standard]	Much Less than Expected	Less than Expected	Expected	More than Expected	Much More than Expected
a) Roles are Clear & Agreed	[Board & CEO have written agreed understanding of the roles and responsibilities of the Board]					
b) Roles refer to strategic plan & performance	[Board members participate in developing & approving the organization's mission, values and it's strategic plan]					
c) Roles refer to performance evaluation	[Board members participate in developing the organization's evaluation plan]					
d) Roles are reviewed	[Board has S.M.A.R.T. goals and evaluation criteria for review of Directors' roles]					
e) Stakeholders' relationships and policy on <i>conflict of interest</i> are clear	[Board members have clear/agreed links and relationships with stakeholders. There is a policy on <i>conflicts of interest</i> for Directors]					
f) Governance & Organizational Structure are reviewed	[Board members participate in review of organisational structure]					

Any other Comments on Directors' Roles:

**RATING OF THE ACTUAL
EXPERIENCE / INFORMATION AVAILABLE
IN THE ASSESSMENT PERIOD**

CRITERION	<i>EXPECTED LEVEL</i>					
2. BOARD EFFECTIVENESS CRITERIA	STANDARD: Expected Level of Component of the Criterion [Draft Definition of <i>Expected</i> standard]	Much Less than Expected	Less than Expected	Expected	More than Expected	Much More than Expected
a) Accessing Information & Monitoring Board Performance	[Board regularly monitors and evaluates its progress & organisational toward strategic goals and service / program performance in terms of stakeholders' outcomes]					
b) Board Members Contribute Effectively	[Each Director of the Board participates and has a specific role in which they are effective in the board work]					
c) Board Members are Competent to evaluate performance	[All Directors have necessary skills, all appropriate stakeholders are represented on the board]					
d) Board clearly contributes to Organisational Effectiveness in terms of stakeholders' outcomes	[Board and CEO can evaluate effectiveness of Board in terms of the organisation's performance in terms of stakeholders' outcomes]					
e) Accessing Information & Monitoring CEO Performance in terms of stakeholders' outcomes	[Board regularly evaluates and provides appropriate feedback in terms of stakeholders' outcomes, as well as resourcinig and developing the Chief Executive Officer's capacity to facilitate organisational outcomes]					
f) Providing Direction & Monitoring Delegation Competence	[Board has approved comprehensive delegation plans and personnel policies which have been reviewed by a qualified professional]					
g) Providing Succession Planning for Board & CEO in terms of relevant Competence	[Board has developed comprehensive succession plans and selection policies for CEO as well as Board recruitment in order to maintain and develop a qualified and competent professional approach to Governance and management of the organisation]					

Any other Comments on Board Effectiveness Criteria (please use the back of this page):

CRITERION	EXPECTED LEVEL	RATING OF THE ACTUAL EXPERIENCE / INFORMATION AVAILABLE IN THE SSESSMENT PERIOD				
		Much Less than Expected	Less than Expected	Expected	More than Expected	Much More than Expected
3. ORGANISATION EVALUATION CRITERIA	STANDARD: Expected Level of Component of the Criterion <i>[Draft Definition of Expected standard]</i>					
a) Evaluation of Financial performance	[Board has a Financial/Audit Committee and receives regular reports on finances & budget performance]					
b) Evaluation of organisation performance in terms of Client/consumer outcomes	[Board has Program or Service Evaluation Committee and receives regular reports on program performance in terms of clients' needs, goals and satisfaction]					
c) Evaluation of Social performance	[Board reviews External/Internal Stakeholder relations regularly in terms of stakeholders' needs, goals and satisfaction]					
d) Evaluation of environmental performance	[Board reviews environmental / regulatory compliance regularly in terms of relevant laws and responsibilities]					

Any other Comments on Organisational Evaluation Criteria:

**RATING OF THE ACTUAL
EXPERIENCE / INFORMATION AVAILABLE
IN THE ASSESSMENT PERIOD**

CRITERION	<i>EXPECTED LEVEL</i>					
4. TRANSFER / LEARNING	STANDARD: Expected Level of Component of the Criterion [Draft Definition of <i>Expected</i> standard]	Much Less than Expected	Less than Expected	Expected	More than Expected	Much More than Expected
a) Evaluation Reports are used	[Board and Financial/Audit Committees and receive & regularly attend to organisational performance evaluation]					
b) Evaluation reports are circulated	[Board has Program or Service Evaluation Committee regular follow-up and circulate reports on program performance in terms of clients' needs, goals and satisfaction]					
c) Resourcing organisational learning & continuous improvement	[Board reviews resources available for organizational learning and continuous improvement of the organisation, CEO and management]					
d) Resourcing Board learning & continuous improvement	[Board reviews resources available for Board's learning and continuous improvement of the Board in terms of competencies of Directors and effectiveness of organisational outcomes]					
e) Communication and Empowering Stakeholders	[Board reviews External/Internal Stakeholder relations regularly in terms of stakeholders' needs, goals and satisfaction with organisational resourcing of continuous improvement]					

Any other Comments on Organisational Learning and Transferability Criteria:

SUPPLEMENT:

Board of Directors Self-Evaluation

Written by Carter McNamara, PhD | Applies to nonprofits and for-profits unless noted

<http://www.mapnp.org/library/boards/boards.htm>

The following table can be used by all board members and the chief executive to get an impression of how well the board is doing. The table is a rather basic form for board evaluation. But, if the evaluation is conducted wholeheartedly, the form should indicate how the board is generally doing in conducting its role.

Each member and the chief executive should complete the form about four weeks before a board retreat. Members attach suggestions about how the board could get higher ratings for any or all of the following 14 considerations.

Ideally, someone outside the organization receives the completed forms, collates the results and writes a report indicating the number of respondents who rated the board for each of the 12 considerations.

	Considerations	Very Good	Good	Ave.	Fair	Poor	COMMENTS ON RELEVANCE* : Do You Know How to Judge what is "Average"? If so please explain (use the back of the page if needed)
1	Board has full and common understanding of the roles and responsibilities of a board						
2	Board members understand the organization's mission and its products / programs						
3	Structural pattern (board, officers, committees, executive and staff) is clear						

* This Table is borrowed (with permission) from McNamara's Free Toolkit, we have added the right hand column for your comments which will assist us to review this questionnaire for relevance in terms of the organisational governance evaluation duties of Boards of Directors.

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	Considerations	Very Good	Good	Ave.	Fair	Poor	COMMENTS ON RELEVANCE* : Do You Know How to Judge what is "Average"? If so please explain (use the back of the page if needed)
4	Board has clear goals and actions resulting from relevant and realistic strategic planning						
5	Board attends to policy-related decisions which effectively guide operational activities of staff						
6	Board receives regular reports on finances/budgets, products/program performance and other important matters						
7	Board helps set fundraising goals and is actively involved in fundraising (<i>nonprofit</i>)						
8	Board effectively represents the organization to the community						
9	Board meetings facilitate focus and progress on important organizational matters						
10	board regularly monitors and evaluates progress toward strategic goals and product/ program performance						
11	board regularly evaluates and develops the chief executive						

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	Considerations	Very Good	Good	Ave.	Fair	Poor	COMMENTS ON RELEVANCE* : Do You Know How to Judge what is "Average"? If so please explain (use the back of the page if needed)
12	Board has approved comprehensive personnel policies which have been reviewed by a qualified professional						
13	Each member of the board feels involved and interested in the board's work						
14	All necessary skills, stakeholders and diversity are represented on the board						

Please list at least three (up to five) points on which you believe the board should focus its attention in the next year. Be as specific as possible in identifying these points.

1. _____
2. _____
3. _____
4. _____
5. _____

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