Beyond Compliance:

The Trustee Viewpoint on Effective Foundation Governance

A Report on Phase II of the Center for Effective Philanthropy's Foundation Governance Project

THE CENTER FOR
EFFECTIVE PHILANTHROPY

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EXECUTIVE SUMMARY

The media and lawmakers have paid increasing attention to foundation governance in recent years, as reports of malfeasance and abuse of resources by some foundations have generated concern and outrage. This has sparked much discussion within foundations about appropriate minimum governance standards, and many foundation boards have adopted new structures and policies as a result. This response is noteworthy because the prevention of abuse is a crucial goal, but it does not address the larger issue of how foundation boards best maximize their effectiveness.

This question of board effectiveness is particularly important because, as many have noted, most foundations are accountable only to their boards, the IRS,

Despite the diversity in foundation and board characteristics, there is a shared sense of what constitutes board effectiveness among foundation trustees.

and state attorneys general. They are generally isolated from market or fundraising pressures that influence other organizations in our society, arguably making the role of the board even more important for foundations than for other types of organizations. It is our view that understanding what constitutes effective foundation governance is, therefore, of crucial importance in ensuring that the significant charitable resources foundations possess are most effectively used.

Identifying the key components of effective foundation governance is not a simple matter. Given that there is no universal, comparable performance measure for foundations — no analog to a company's stock price or profitability, for example — it is difficult to connect governance practices to foundation performance in order to determine conclusively which board practices correspond with better performance. As a proxy, we

sought to understand what best predicts *trustee perceptions* of foundation board effectiveness. In so doing, we were able to derive a definition of board effectiveness that foundation trustees carry with them, whether consciously or not. This definition has important implications for boards and for the CEOs who ultimately answer to those boards.

We arrived at this definition by surveying 607 trustees of 53 large U.S. foundations, receiving 546 responses during the fall of 2004. At the same time, we conducted a separate survey of the CEOs of these 53 foundations. During the summer of 2005, we interviewed 25 trustees and 20 CEOs who participated in our study to further explore themes evident in our analysis of the survey results.

Although it includes only those foundations that opted to participate in this research, this study is, to our knowledge, the largest ever undertaken on a broad set of foundation boards. The 53 foundations participating in this study ranged in asset size and foundation type. The boards of these foundations also varied along a number of structural dimensions, such as size and committee structure. But our central findings hold true across these differences.

KEY FINDINGS:

- Foundations participating in our Foundation Governance Project have responded to recent scrutiny with changes in governance structures and practices. Of the 53 foundation boards participating in our study, 42 have voluntarily implemented changes of the type mandated by Sarbanes-Oxley (which pertains to boards of publicly traded companies), such as instituting conflict of interest policies or creating a separate audit committee.

- Despite the diversity in foundation and board characteristics, there is a shared sense of what constitutes board effectiveness among foundation trustees. Across foundations of different sizes and types and across dimensions of board structure, five

key characteristics emerged as the most significant predictors of trustee perceptions of foundation board effectiveness. These characteristics, in order of importance, are

— APPROPRIATE MIX OF TRUSTEE CAPABILITIES AND UTILIZATION OF THOSE SKILLS. Board members are more likely to see their boards as effective if they possess certain broad capabilities beyond financial expertise, if their roles have been communicated clearly, and if they feel well-utilized.

— ENGAGEMENT IN STRATEGY DEVELOPMENT AND IMPACT ASSESSMENT. Perceptions of board effectiveness are influenced by whether the foundation has a strategic plan that has been meaningfully influenced by the board as well as clear, quantitative indicators against which progress is tracked.

— FOCUS OF DISCUSSIONS ON IMPORTANT TOPICS. Board members see the board as most effective when discussion topics at meetings are focused on important issues, including essential strategic and fiduciary responsibilities, and meeting materials are of a high quality.

— POSITIVE RELATIONSHIP WITH THE CEO. A positive relationship with the CEO is essential to perceptions of board effectiveness and is influenced by the quality of communication outside board meetings.

— OPPORTUNITY FOR INFLUENCE AND RESPECTFUL DISSENT IN BOARD MEETINGS. Dynamics in the boardroom, including a respect for healthy dissent and a sense of equal opportunity for participation, are crucial to perceptions of board effectiveness — but board dynamics are often misjudged by board chairs.

What is clear from our analysis is that trustees perceive the board on which they serve to be more effective if it is involved in the high-level and strategic business of the foundation. Trustees want more board involvement, for example, in questions related to assessment of foundation performance. However, even more important to determining trustees' perceptions of effectiveness is how the foundation staff and board chair manage trustees' contributions of their capabilities, time, and insights.

· Although the definition of board effectiveness suggested by our analysis of trustee survey results holds true across a diverse set of foundation boards, dynamics differ in important ways among different types of boards.

— Average ratings of boards' mix of skill and experience do not vary between boards on which all members are compensated and those on which none are compensated. However, compensated trustees reported that they spend a third more time on foundation-related business outside board meetings, and they are more likely to perform a number of other activities, such as conducting site visits and reading materials in advance of a meeting.

— People of color on boards with only one or two other minorities gave lower ratings than non-minority trustees when asked about the extent to which each board member has equal opportunity for influence. Once minority membership reaches higher absolute numbers — three or more — ratings of opportunity for influence do not vary between minority and non-minority members.

To move beyond compliance with minimum standards, toward a broader definition of improved foundation board performance, trustees and CEOs will need to understand the shared conception of board effectiveness that exists among foundation trustees serving on a diverse set of foundation boards. They will also need to appreciate the distinct dynamics at play for boards of different compositions. These challenges, and their implications, are explored in detail in this report.

INTRODUCTION

Foundation governance has emerged as an issue of much debate over the past several years. This interest has been heightened by the corporate governance scandals that led to the passage of Sarbanes-Oxley, as well as media reports of self-dealing, excessive compensation, and poor oversight at foundations.[1] Those reports have fueled calls for new regulations as well as increasing attention in Congress and among state legislators and attorneys general. Indeed, our research suggests that many larger foundations have already made changes in governance structures and practices.

But the Center for Effective Philanthropy's (CEP) interest in the issue of foundation governance is not focused primarily on the prevention of abuse, an objective of the work of many other capable organizations that have been active on this issue. Instead, our focus is on understanding how foundation boards maximize their effectiveness and the effectiveness of the foundations they govern. Foundation boards are, after all, the entities to which foundation staff are most directly accountable for results. The effectiveness of a foundation board in performing its role is therefore related to the effectiveness of foundations themselves.

CEP launched the Foundation Governance Project in September 2003. We began with the CEO perspective, through a survey of CEOs of the 250 largest foundations in the country, to which we received 129 responses. The findings from this survey were published in 2004 in *Foundation Governance: The CEO Viewpoint*.

In Phase II of the Foundation Governance Project, we turned to the trustees of large foundations for their insights, seeking to understand how they perceive their board experiences and how they define foundation board effectiveness. In the summer of 2004, CEP recruited 53 foundations representing 607 trustees to participate in this phase of the Project (Appendix A, *Foundation Participants*, page 24). The trustee survey instrument focused on perceptions of a variety of aspects of board functioning, while the CEO survey covered some of the same issues as well as detailed information regarding board structure and operations. In exchange for participation, foundations received a detailed Comparative Board Report (CBR) on how their board practices and trustee perceptions compared to the complete set of others, as well as to a cohort of foundations of the same broad type (e.g., community foundations).

This report presents the findings from much of our data collection:

- We received 546 responses to our trustee survey, representing a 90 percent overall response rate from participating foundations.

- We received 53 completed CEO surveys, representing a response rate for the population of participating foundations of 100 percent.

- In addition, 25 trustees and 20 CEOs representing 31 of the participating foundations were interviewed by CEP staff in the summer of 2005.

We are pleased that many of the findings we describe, particularly with respect to predictors of trustee perceptions of board effectiveness, are broadly consistent with findings presented in research conducted on non-profit boards over the past decade. However, in many cases, the specific implications for foundations are distinct. And, in other cases, we are presenting data from questions that are unique to foundations. We are hopeful that the reflection and debate generated by this report leads to higher-performing foundation boards and that those boards, in turn, more powerfully affect the performance — and impact — of the foundations they govern.

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1 A 2003 series of reports in *The Boston Globe* highlighted many financial abuses by foundations. The series was investigated and written by *The Boston Globe's* Spotlight Team: reporters Beth Healy, Francie Latour, Sacha Pfeiffer, and Michael Rezendes. Walter V. Robinson (ed.), "Some officers of charities steer assets to selves" (October 9, 2003); "Foundation's sale of nonprofit hospital a windfall for administrator" (October 9, 2003); "Charity money funding perks" (November 9, 2003); "Costly furnishings come at charities' expense" (November 9, 2003); "The trustees' perk that keeps on giving" (November 9, 2003); "Foundations veer into business" (December 3, 2003); "Philanthropist's millions enrich family retainers" (December 21, 2003); "Foundation's tax returns left unchecked" (December 29, 2003).

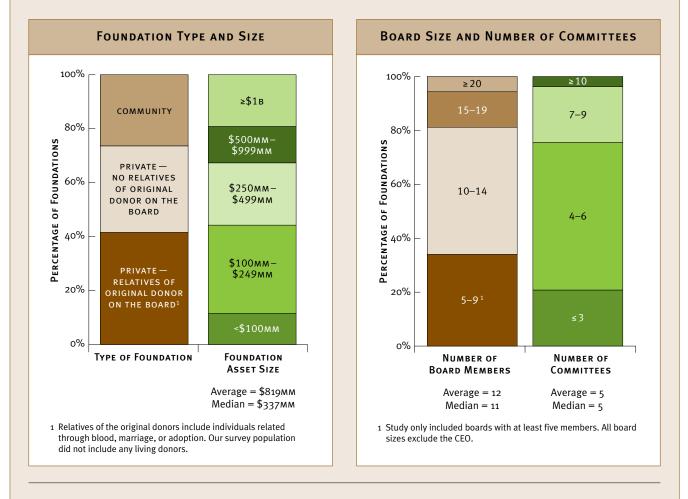## The Foundation Governance Project: Phase II Participants

The 53 foundation participants in Phase II of the Foundation Governance Project are a diverse group with a wide variety of board structures and practices.

We invited the 415 U.S. foundations with the largest financial assets and at least five trustees to participate in the survey, excluding corporate and operating foundations.[1] Fifty-three foundations opted to participate, including 14 community foundations, 17 private foundations, and 22 family foundations — defined as those private foundations with at least one relative of the original donor serving on the board. The median asset size of those foundations was $337 million.[2]

The boards in our survey sample had a median size of 11 members. Community foundations in our sample had a larger median board size, at 14 members, as compared to private foundations, where the median was 10.

None of the community foundations in our sample compensated their trustees, while more than half of the private foundations compensated some or all of their trustees; the median individual annual trustee compensation for those boards was $21,000.

The average board tenure was seven years, and 96 percent of boards reported having a standard term of office, with 88 percent of those foundations reporting that those terms apply to all members. The length of reported terms ranged from one to 20 years, and the median was three years. Of the foundations, 71 percent had term limits, and 78 percent reported that the term limits are always enforced.

Board members responding to our survey typically have experience on other boards: 87 percent report serving on another foundation or nonprofit board and 40 percent report serving on a corporate board.

Foundation Type and Size

Average = $819mm
Median = $337mm

1 Relatives of the original donors include individuals related through blood, marriage, or adoption. Our survey population did not include any living donors.

Board Size and Number of Committees

Average = 12   Average = 5
Median = 11   Median = 5

1 Study only included boards with at least five members. All board sizes exclude the CEO.

1 Assets of invited foundations ranged from $90mm to $10.1b. Asset sizes as reported on *The Foundation Directory 1 & 2 on CD-ROM, Update* (2004), distributed by The Foundation Center. Additionally, three foundations, the Woods Fund of Chicago, The Jessie Smith Noyes Foundation, and the Endowment for Health, with assets of $61mm, $67mm, and $77mm, respectively, requested to participate in the study.

2 Asset sizes as reported on foundations' most recent 990-PF tax filings. This includes one conduit foundation that distributes grant dollars from the assets of two trusts, with a value of approximately $400mm, according to the foundation's CEO.

Discussion of Key Findings

Responses to Recent Scrutiny

The increase in media and lawmaker attention to foundations and their governance practices over the past several years has generated significant discussion in foundation boardrooms. Fifty of the 53 CEOs (94 percent) we surveyed reported having a discussion with their boards regarding board responsibilities in light of recent media scrutiny of foundation and corporate boards — and a third of board members said they think differently about their role on the board as a result of recent external scrutiny.

It is also clear that, among the foundations that participated in this research, changes in governance structure and practice have been undertaken as a result of this increased focus on governance:

- Forty-two of the 53 CEOs (79 percent) reported that their foundations had voluntarily made changes of the type mandated for corporations by Sarbanes-Oxley. Changes cited by CEOs included those related to board structure, such as the addition of a separate audit committee, as well as adoption of new policies (Figure 1).

Board conflicts of interest have been a subject of particular interest to the media and legislators, and all but one of 53 foundations (98 percent) reported having written conflict of interest policies for board members.

Board member views on the importance of the changes engendered by the scrutiny vary. One trustee commented in an interview that the scrutiny "heightens my commitment to performing my role as a board member with energy, enthusiasm, and integrity." Another trustee worried, in a written comment on our survey, that Sarbanes-Oxley is "overkill in some respects."

FIGURE 1 BOARDS MAKING CHANGES IN LIGHT OF RECENT CORPORATE GOVERNANCE REFORMS

1 Respondents were asked to explain in their own words any changes in the board's governance practices in light of recent corporate governance reforms. Each response was assigned to one of five categories.

2 Examples of policies adopted or refined include conflict of interest, document retention, whistleblower, and code of ethics.

It is apparent, both in our analysis of survey responses and in our interviews, that foundation responses to questions raised by the recent scrutiny of governance practices have been seriously considered – taking board time and attention. Equally clear is that these responses are not seen by trustees to relate to the most important elements of board effectiveness.

Perceptions of Effectiveness

Given that there is no single, universal, comparable performance measure for foundations, we cannot easily connect governance practices to foundation performance in order to determine conclusively which board practices correspond with better results.[2] As CEP develops a larger set of data on foundation performance, we hope to be able to draw this connection. But, in the meantime, we must use perceptions as a proxy.[3]

We have sought through this research to understand what best predicts responses to the question, "Overall, how effective do you think the board is?" where 1 represented "not at all effective" and 7 represented "very effective." This approach, of seeking to understand what predicts perceptions of board effectiveness, has been taken in a variety of studies on nonprofit boards. But we know of no other such analogous effort focused on foundation boards.

Foundation trustees generally perceive their own boards to be effective. This is, perhaps, not surprising. Trustees have a vested interest in seeing the boards on which they serve as performing well: The performance of the board reflects to a degree on their own performance. That said, average board ratings of effectiveness do vary significantly, from a low average rating of 4.7 to a high average rating of 7. The ratings of boards in the top quartile of effectiveness

are statistically different from ratings in the bottom quartile. Open-ended comments from those trustees rating their boards' effectiveness toward the low end of the range are also decidedly different in tone from those rating their boards toward the high end, with the former group offering numerous critiques and suggestions for improvement and the latter praising board group dynamics and decision making.

Our approach of deriving a definition of board effectiveness through statistical analysis, rather than merely asking for an open-ended definition, yields a more authentic answer because it reduces the chances that results are influenced by social norms. Whether consciously or not, trustees carry a definition of board effectiveness with them, and the analyses we conducted allow us to understand that definition. Importantly, the predictors of perceptions of board effectiveness we identified are the same regardless of foundation type, asset size, board size, number of committees, or average tenure of trustees (Figure 2, page 8).

Each of the five predictors of perceptions of effectiveness that emerged from our analysis accounted for more than 10 percent of explainable variance in trustees' perceptions of board effectiveness.[4] These concepts are

- appropriate mix of trustee capabilities and utilization of those skills

- engagement in strategy development and impact assessment

- focus of discussions on important topics

- positive relationship with the CEO

- opportunity for influence and respectful dissent in board meetings

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2 Over time, CEP's objective is to develop a more robust set of performance measures, or indicators of effectiveness, that might begin to allow for this kind of analysis. For example, nearly 100 foundations have obtained a Grantee Perception Report® (GPR) from CEP illustrating various aspects of foundation performance as perceived by grantees. However, the set of foundations that have participated in both the Foundation Governance Project and the GPR is not large enough to analyze conclusively whether there is a link between certain board practices and GPR performance.

3 For a discussion of the use of board member perceptions to assess nonprofit board effectiveness, see Robert D. Herman and David O. Renz, "Board Practices of Especially Effective and Less Effective Local Nonprofit Organizations," *American Review of Public Administration*, vol. 30 num. 2 (2000): 150–151. For a discussion of the strengths and weakness of different theoretical approaches to measuring board effectiveness and an overview of current research, see Francie Ostrower and Melissa Stone, "Governance: Research Trends, Gaps, and Future Prospects," *The Nonprofit Sector, A Research Handbook*, 2nd Edition (forthcoming), edited by Walter W. Powell and Richard Steinberg (New Haven, CT: Yale University Press).

4 A sixth predictor, *contribution of subject-specific expertise*, accounted for nine percent of explainable variance in perceptions of board effectiveness.

FIGURE 2 TRUSTEE PERCEPTIONS OF BOARD EFFECTIVENESS

FACTORS THAT PREDICT TRUSTEE PERCEPTIONS OF BOARD EFFECTIVENESS	SURVEY QUESTIONS	EXPLANATORY POWER
APPROPRIATE MIX OF TRUSTEE CAPABILITIES AND UTILIZATION OF THOSE SKILLS	• In your judgment, to what extent does the board have the appropriate mix of skills and experiences to contribute significantly to the foundation's success? • How clearly has the foundation communicated your individual board role to you? • How satisfied are you with the extent to which the foundation utilizes your individual capabilities as a board member?	24%
ENGAGEMENT IN STRATEGY DEVELOPMENT AND IMPACT ASSESSMENT	• How successful is the board in shaping long-term strategy for the foundation? • How would you rate the capabilities of the board in its full understanding of the foundation's strategy for achieving social impact? • How satisfied are you with the information you receive to assess the foundation's progress against its strategy?	22%
FOCUS OF DISCUSSIONS ON IMPORTANT TOPICS	• To what extent are discussions during board meetings focused on topics of greatest importance to the board?	18%
POSITIVE RELATIONSHIP WITH THE CEO	• Overall, how satisfied are you with the board's relationship with the CEO?	17%
OPPORTUNITY FOR INFLUENCE AND RESPECTFUL DISSENT IN BOARD MEETINGS	• Do you think each board member (with the exception of the chair and the CEO) has equal opportunity to have influence on the board? • To what extent are board members comfortable taking opposing sides from other board members in discussions at board meetings? • To what extent are board members comfortable taking opposing sides from staff in discussions at board meetings?	11%
CONTRIBUTION OF SUBJECT-SPECIFIC EXPERTISE[1]	• Please indicate the current level of board involvement in contributing subject-specific expertise.	9%
EXPLAINED VARIANCE $(R^2) = 0.56$		% of Explained Variance in Board Effectiveness[2] = 100%

1 This predictor is not discussed because we have focused on those predictors that each account for more than 10 percent of explained variance in this model.

2 Due to rounding of decimals, explanatory power of factors in this figure sum to 101 percent.

Note: These predictors were arrived at via stepwise linear regression analysis. The list of possible predictors for inclusion in the regression included those variables correlated with effectiveness at a level of 0.30 or above, as well as factors created through a factor analysis. Exploratory factor analyses were conducted to determine whether variables measuring similar constructs could be combined into more powerful measures of shared underlying constructs. Those factor analyses were conducted with oblique rotation and maximum likelihood extraction.

What is apparent from this analysis is that trustees perceive the board to be more effective when it is involved in the high-level and strategic business of the foundation. However, equally important to determining trustees' perceptions of effectiveness is how the foundation manages trustees' most valuable assets — their capabilities, time, and insights.

Appropriate Mix of Trustee Capabilities and Utilization of Those Skills

The best predictor of trustee perceptions of board effectiveness relates to the board's *appropriate mix of capabilities and utilization of those skills*. This characteristic is a factor composed of three highly correlated questions from

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Just as it would be unthinkable to recruit a new staff member for a foundation without considering the skills needed for the role, communicating the responsibilities of the position, or utilizing the very skills for which she was hired, so too do trustees desire the same consideration.

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our trustee survey centered on the capabilities mix of the board, clarity of communication of the trustee role, and utilization of individual trustee capabilities.[5] Just as it would be unthinkable to recruit a new staff member for a foundation without considering the skills needed for the role, communicating the responsibilities of the position, or utilizing the very skills for which she was hired, so too do trustees desire the same consideration.

Capabilities Mix

Having the "right" capabilities represented in the boardroom is a key predictor of how trustees perceive their own board's effectiveness.[6] Across the pool of survey respondents, we found a set of capabilities that were particularly important to trustees in predicting how they rated the extent to which their board has the appropriate mix of skills and experiences:[7]

• capabilities in nonprofit management

• detailed understanding of the foundation's strategy, program areas, and target populations

• possession of contacts that are potentially valuable to the foundation

These capabilities were more strongly related to positive ratings of the board's overall mix of skills and capabilities than were accounting and investing capabilities. While financial skills are essential to fulfill the board's fiduciary responsibility, trustees do not regard them as the most important skills the board needs to have to contribute to the foundation's success. One trustee survey respondent noted that "we have a surplus of corporate lawyers, and we need greater geographical, experiential, and intellectual diversity, as well as individuals with in-depth experience working with our target populations."
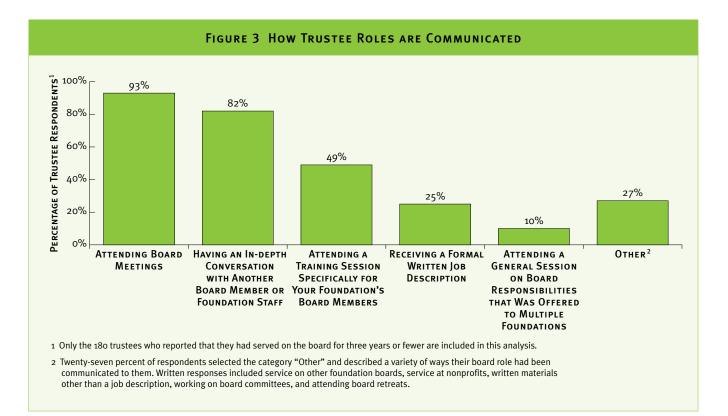
Clarity of Role

Once trustees are recruited, clearly communicating responsibilities is crucial.[8] Some trustees we interviewed felt they could have been better prepared

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5 Three of the predictors described in this analysis were created through a factor analysis, a statistical technique used to combine highly related items together. A factor is a combination of related items that is conceptually and statistically representative of the underlying ideas shared across those items.

6 Studies of nonprofit boards have revealed similar findings; for example, Mel Gill, Robert J. Flunn, and Elke Reissing, "The Governance Self-Assessment Checklist: An Instrument for Assessing Board Effectiveness," *Nonprofit Management & Leadership*, vol. 15 num. 3 (2005): 289–290.

7 Throughout this report, relationships between items on the 1 to 7 scale were statistically tested using correlation coefficients. Only correlation coefficients equal to or greater than a value of 0.30 are discussed in this report. Statistically, a correlation of this magnitude is considered to be of a medium effect size. An effect size is a standardized measure of the magnitude of relationship between variables. Jacob Cohen, "A Power Primer," *Psychological Bulletin*, vol. 12 num. 1 (1992): 155–159.

8 Richard P. Chait, Thomas P. Holland, and Barbara E. Taylor, *The Effective Board of Trustees* (New York: Macmillan Publishing Co., 1991), 26–29. Authors found that effective independent college boards of trustees took an active role in orienting and educating board members about their specific board roles and responsibilities.

for their roles. "I think I had kind of [understood] the legal basics… but the actual work is much more demanding than I had imagined," said one trustee.

The majority of newer board members — those who had been on the board for three years or fewer — learned about the trustee role informally: by attending board meetings or by having an in-depth conversation with another trustee (Figure 3). However, those who attended a training session specific to the foundation rated the clarity of their role significantly higher than those who did not receive such training.[9, 10] Said one survey respondent, "As a relatively new director, I think I could have been more effective earlier on had our foundation provided a face-to-face new directors orientation."

Clear communication of role is not just about orienting new board members: It is also important to continually train board members and clarify their roles as the board and foundation evolves.[11] Forty-three percent of all board members reported that they received additional formal training to enhance their capabilities as board members. Those board members who received additional training indicated they have a clearer sense of their roles than those who did not. As one trustee survey respondent wrote, "We would like to have more educational sessions on issues that we are dealing with in our grantmaking so that we will all be better informed, particularly on the latest information."

Finally, clarity of communication of role is one of several areas where the perceptions of compensated

FIGURE 3 HOW TRUSTEE ROLES ARE COMMUNICATED

Percentage of Trustee Respondents[1]

- Attending Board Meetings: 93%
- Having an In-depth Conversation with Another Board Member or Foundation Staff: 82%
- Attending a Training Session Specifically for Your Foundation's Board Members: 49%
- Receiving a Formal Written Job Description: 25%
- Attending a General Session on Board Responsibilities that Was Offered to Multiple Foundations: 10%
- Other[2]: 27%

1 Only the 180 trustees who reported that they had served on the board for three years or fewer are included in this analysis.

2 Twenty-seven percent of respondents selected the category "Other" and described a variety of ways their board role had been communicated to them. Written responses included service on other foundation boards, service at nonprofits, written materials other than a job description, working on board committees, and attending board retreats.

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9 Ratings of the clarity of communication of role for these trustees did not differ by whether or not board members received a formal written job description, had an in-depth conversation about their role with other board members or staff, or attended a general training session for multiple foundations.

10 Throughout this report, differences between two groups were statistically tested using t-tests. Only t-test findings reflecting differences of at least a medium effect size (Cohen, "A Power Primer," 155–159) are reported unless otherwise noted. For the t-test, an effect size is calculated as the difference between the means of the two groups being compared, in relation to their pooled variances.

11 Daigeneault draws similar conclusions about nonprofit boards. Michael G. Daigeneault, "Models of Good Governance," *Credit Union Magazine*, vol. 71 num. 7 (2005): 56–57.

How Compensated and Uncompensated Board Members' Behaviors Differ

Foundation board member compensation has been a source of intensifying debate over the past several years, as media reports and increased scrutiny from lawmakers have raised the question of whether compensating foundation trustees is appropriate. There are many competing theories about what paying trustees does — or does not — achieve but little data to allow for a comparison of the behaviors of trustees who are compensated and those who are not.

Of the 53 foundation participants in our research, 20 compensate all members and three compensate some. The level of compensation ranges widely, from a few thousand dollars to more than $100,000, with a median annual compensation rate of $21,000.[1] Comparing the reported attitudes and behaviors of the 193 board member respondents who are compensated to the 353 who are not reveals some differences related to trustees' time commitment to foundation activities outside board meetings.

Trustees who are compensated reported that they spend a third more time on foundation matters outside board meetings than do trustees who are uncompensated. We also found that 68 percent of compensated trustees reported they have participated in a grantee site visit in the past 12 months, compared to 45 percent of uncompensated trustees. In addition, trustees who are compensated reported reading more of the board materials prior to the board meeting.[2]

Trustees who are compensated reported that they are more involved in setting the agenda of — and participating in — board meetings. They also rated the clarity of communication of their individual roles as board members higher than did trustees who are not compensated. Perhaps surprisingly, none of these differences in reported behaviors, inside or outside board meetings, vary significantly by the *level* of compensation the trustees receive, only by whether they are compensated or uncompensated.

Despite these differences in the reported behavior of individual trustees, when comparing average ratings of boards where all members are compensated with average ratings of boards where no members are compensated, ratings of the boards' mix of skills and experiences did not differ significantly. In addition, ratings for specific strategic or operational skills were not significantly

TRUSTEE COMPENSATION		
	AVERAGE RATING of the Board's Mix of Skills and Capabilities (1–7 scale)	**TRUSTEE ESTIMATE of Hours Spent on Foundation Business Outside Board Meetings[1]**
TRUSTEES Who Are Compensated	5.8	AVERAGE / MEDIAN 87/50[2]
TRUSTEES Who Are Not Compensated	5.7	AVERAGE / MEDIAN 65/36

1 Responses from 11 trustees (six percent of the sample size) who estimated that they spent 600 hours or more on foundation business outside board meetings were excluded in the average and median calculations. Four of these trustees were compensated at rates of $118,568, $59,500, $32,000, and $27,500, respectively. The other seven trustees were not compensated.

2 The difference in number of hours spent on foundation business outside board meetings is statistically different at 95 percent confidence between compensated and uncompensated trustees. However, the observed effect size is small.

Note: Averages and medians are based on the responses of 193 trustees who reported being compensated beyond reimbursement for meeting expenses and 344 trustees who reported not being compensated beyond reimbursement for meeting expenses.

higher on boards where all members are compensated. Finally, and perhaps surprisingly, ratings of a board's overall effectiveness did not differ significantly between boards where all members are compensated and those where no members are compensated.

Our data cannot shed light on whether compensation causes these differences in reported behaviors. We know only that some differences exist. And, of course, even if pay were shown to cause the different behaviors described here, it would remain an open question whether this would justify the practice — or whether there are other, equally effective ways to motivate such behavior.

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1 Our survey asked whether trustees were compensated (beyond reimbursement of travel expenses). Data on amount of compensation were taken from the most recently available 990-PF filings. Compensation data for two foundations were not available.

2 Trustees were asked to rate how much of the board meeting material they were typically able to read in advance of the meeting on a 1 to 7 scale with 1 being "none" and 7 being "all." Compensated trustees gave an average rating of 6.4, and trustees who are not compensated gave an average rating of 6.0.

and uncompensated trustees vary, with compensated trustees reporting that they have a greater level of clarity than those who are not paid (*How Compensated and Uncompensated Board Members' Behaviors Differ*, page 11).

Utilization

Given the time and care that goes into strategically recruiting board members who possess valuable skills, it is important to utilize trustees to their full potential. "The talent is there," wrote one trustee respondent. "It needs to be used."

Thirty-four percent of the trustees gave a rating of a 5 or lower on a 1 to 7 scale for their satisfaction with the extent to which the board utilizes their individual capabilities. In our interviews with board members, it was clear that many trustees are pressed for time. Yet those who rated their satisfaction with utilization of their skills a 6 or a 7 spend significantly *more* time on foundation business outside meetings (86 hours annually) than those giving a rating of 5 or lower (49 hours annually).

Nearly a quarter of board members indicated a desire to contribute their expertise more fully, a sentiment that is expressed frequently in open-ended survey comments and interviews. One trustee we interviewed described it this way: "Those who came with financial expertise, as in the bankers or the accountants, were always tapped to help review the audits or be on the financial or investment committees. So it was just odd

"The talent is there. It needs to be used."

to me that those of us [who] had more programmatic skills were kept at arm's length when those [who] had financial skills were embraced." At community foundations, the desire for better utilization of skills seems to be particularly strong in the area of fundraising, where trustees want to play a more significant role (*The Role of Community Foundation Trustees in Fundraising*).

Those who rated the board's level of subject-specific expertise higher were more satisfied with

the use of their own capabilities — as well as with the effectiveness of the board. Trustees wish both to contribute their expertise and to take advantage of the expertise of their colleagues who have unique knowledge, especially when it is linked to a foundation's field of funding.

To improve board member perceptions of board effectiveness, trustees and staff can

- candidly review board capabilities and programmatic expertise, identifying areas of underutilization of current trustees and assessing the need for augmentation of skills through the addition of new board members

- reconsider the process by which the trustee role is communicated and consider adding a formal, in-person orientation session for new trustees if one does not currently exist

- assess the ongoing training needs of experienced trustees — and invest in meeting those needs

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Engagement in Strategy Development and Impact Assessment

The second best predictor of a trustee's rating of board effectiveness is perception of the board's success in developing strategy and assessing impact. *Engagement in strategy development and impact assessment* is a factor of three highly correlated questions from our survey centered on the board's understanding of — and success in — shaping foundation strategy, as well as satisfaction with the information received to help assess strategic progress.

Strategy Development

Average ratings of the board's success in shaping strategy were, not surprisingly, significantly lower for the 30 percent of boards where the CEO reported

that the foundation lacks a formal strategic plan. A number of trustees serving on boards of foundations with strategic plans articulated their value in open-ended comments on their surveys and interview responses. One described the purpose of strategic planning as, "to ensure that all the elements, assets, and resources of our foundation can be used in an integrated manner to fully achieve our mission statement." Another trustee, in an interview, said, "One of us [board members]… always asks the question when presented with an update, a new opportunity, or a problem, 'Well, how does that relate to the strategy? …How does the strategy inform what we ought to be doing on that issue?'"

While it is important to have a strategy, it is also important to board members that they be involved in developing it. Trustees' ratings of the board's success in shaping the foundation's strategy were highly correlated with their ratings of the board's involvement in developing the strategy. But the degree of involvement in this important activity varies, with average board ratings ranging from a 4.3 to a 6.9 on a scale of 1 to 7, where 1 was "no involvement" and 7 represented "substantial involvement."

The varying approaches to the board's role in strategy development are reflected in trustee comments. One trustee survey respondent serving on a board that saw itself as substantially involved in developing the strategy said, "The staff is there to listen, to input where they have the knowledge that we don't have, and then they go back and kind of put it all together." Another trustee survey respondent, serving on a board that rated itself as less involved in developing

"We are too often put in the position of just rubber-stamping predetermined strategies and grantmaking decisions."

strategy, complained that "we are too often put in the position of just rubber-stamping predetermined strategies and grantmaking decisions."

This question of where responsibility lies for development of strategy relates, of course, to the

importance of clarity of role, discussed in the previous section.[12] It is crucial for boards and staffs to talk candidly about how responsibilities are divided and defined. One trustee summarized the challenge in an interview: "I think, with any foundation, you have to decide who's going to make the decisions.… Who is actually running [the foundation]?"

Assessing Results

Assessing progress against strategy is an area of relative frustration for many foundation board members. The mean rating for the question, "How satisfied are you with the information you receive to assess the foundation's progress against its strategy?," was the lowest for all of the questions on the survey — a 5.0. Average ratings ranged from a low of a 3.1 for one board to a high of a 6.8 for another. One trustee survey respondent noted that the board needs "a clearer vision of the outcomes it seeks to accomplish." Part of trustees' frustrations with assessing progress against strategy is due to the difficulty of measuring the impact of the foundation's work. In the words of one trustee we interviewed, "A lot of the benefits from evaluation are not so much in actually knowing what the impact is, because you don't always know. You can't know for years and years."[13]

Quantitative targets are important to board members. We asked trustees whether their boards have quantitative targets that measure progress against strategy, and we found that those who responded "yes" gave significantly higher ratings for their satisfaction with the information they receive to assess progress. Surprisingly, however, board members on the same board were not consistent in their response to this question. In fact, trustees at only four of the 53 foundations were in unison when responding about the presence of such targets: At the rest, some perceived there to be quantitative targets while others did not. This dissonance calls into question how effectively quantitative targets are being communicated and how often they are being

measured against. One trustee described a need for "better evaluation tools to independently assess whether we are doing as well as we think we are."

To improve board member perceptions of board effectiveness, trustees and staff can

• discuss how the foundation will achieve its mission and develop, with significant board involvement, a strategic plan that ties grantmaking and other activities to desired outcomes

• clarify the role each will play in developing foundation strategy and establish a clear process for strategy development and review

• give priority in the boardroom to strategy development, understanding, and assessment

• identify and clearly communicate performance targets to assess progress against strategy

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Focus of Discussions on Important Topics

Having discussions that are focused on the most relevant topics to the board was the third most important predictor of perceptions of board effectiveness. This characteristic is based on one question: "To what extent are discussions during board meetings focused on topics of greatest importance to the board?"

Setting the Stage for Important Discussions: The Right Materials

Trustees depend on appropriate materials to guide their discussions, and having board materials focused on the topics of greatest importance to the board was highly correlated with having what were perceived to

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12 For a discussion of the importance of strategy to nonprofit boards, see Richard P. Chait, William P. Ryan, Barbara E. Taylor, *Governance as Leadership* (Hoboken: John Wiley & Sons, 2005), 51–77.

13 For more on CEP's research findings related to assessing overall foundation performance, see CEP, *Toward a Common Language: Listening to Foundation CEOs and Other Experts Talk About Performance Measurement in Philanthropy* (2002), and CEP, *Indicators of Effectiveness: Understanding and Improving Foundation Performance* (2002).

be important board discussions. One trustee survey respondent noted the importance of "receiving concise materials on important issues well in advance of the meeting." Few are seen to have concise materials, however: Only one percent of trustees in our sample indicated that they receive too little material, compared to 52 percent saying they receive too much (Figure 4).
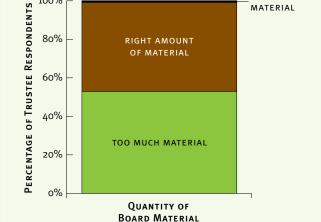
It is not surprising, then, that less than half (48 percent) of trustees reported reading all materials.[14] One trustee survey respondent complained that "the material that needs to be reviewed always exceeds the time we have available." Another trustee, in an interview, said, "We are sent enormous quantities of information. Seven — seven pounds a month. I weighed it once." Our findings suggest that if materials were more focused on key topics — and perhaps less voluminous — trustees would feel better served.[15]

Focus of the Agenda

That board members are more likely to perceive their boards as effective if discussions are focused on areas of importance is hardly surprising. But this finding raises the question: Which specific topics are viewed as most important, and which are seen as less so?

We asked boards about their level of involvement in 10 discrete areas of foundation business (Figure 5, page 16). Involvement in four areas was statistically correlated with ratings of importance of board meeting discussions, suggesting that these are viewed by board members as the primary responsibilities of trustees:

• assessing the foundation's social impact

• assessing the foundation's overall performance

• evaluating the CEO

• assessing the foundation's investment performance

FIGURE 4 RELATIVE AMOUNT OF MATERIAL RECEIVED

Note: Trustees were asked to indicate the quantity of board meeting material they receive on a 1 to 7 scale, where 1 represented "too little material" and 7 represented "too much material." Responses to this question were categorized into three groups: 1–3: "Receive too little board meeting material"; 4: "Receive appropriate amount of board meeting material"; 5–7: "Receive too much board meeting material."

"We are sent enormous quantities of information. Seven — seven pounds a month. I weighed it once."

Equally interesting are the areas that were not correlated with having important discussions: approving grants, making operational decisions, and developing or approving operational policy. Our analysis demonstrates that trustees view board discussions more positively when they are focused on the primary strategic and fiduciary responsibilities of trustees — including assessment of foundation and CEO performance — and not on the operational

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14 Trustees were asked to rate how much of the board meeting material they were typically able to read in advance of the meeting on a 1 to 7 scale with 1 being "none" and 7 being "all." Ratings of a 7 were categorized as reading all of the material.

15 Interestingly, there is no correlation between the amount of material read and individual trustees' self-reported level of participation in board meetings or their satisfaction with the information received to assess the foundation's strategic progress. Nor did we find a correlation between amount of material read and a trustee's perception of the board's knowledge of the foundation's program areas or understanding of the foundation's strategy for achieving social impact.
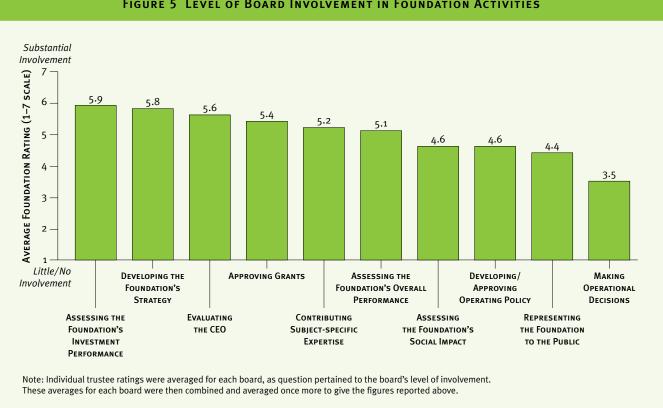
FIGURE 5 LEVEL OF BOARD INVOLVEMENT IN FOUNDATION ACTIVITIES

Substantial Involvement

AVERAGE FOUNDATION RATING (1–7 SCALE)

Little/No Involvement

5.9	ASSESSING THE FOUNDATION'S INVESTMENT PERFORMANCE
5.8	DEVELOPING THE FOUNDATION'S STRATEGY
5.6	EVALUATING THE CEO
5.4	APPROVING GRANTS
5.2	CONTRIBUTING SUBJECT-SPECIFIC EXPERTISE
5.1	ASSESSING THE FOUNDATION'S OVERALL PERFORMANCE
4.6	ASSESSING THE FOUNDATION'S SOCIAL IMPACT
4.6	DEVELOPING/ APPROVING OPERATING POLICY
4.4	REPRESENTING THE FOUNDATION TO THE PUBLIC
3.5	MAKING OPERATIONAL DECISIONS

Note: Individual trustee ratings were averaged for each board, as question pertained to the board's level of involvement. These averages for each board were then combined and averaged once more to give the figures reported above.

and grantmaking details associated with the day-to-day running of the foundation.

Level of Involvement in Key Activities

A majority of trustees want greater involvement in assessment of foundation impact and performance. That view is shared by a majority of the CEOs, who also say they want more board involvement in these areas (Figure 6), raising the question: What is preventing boards from being more involved in assessment?
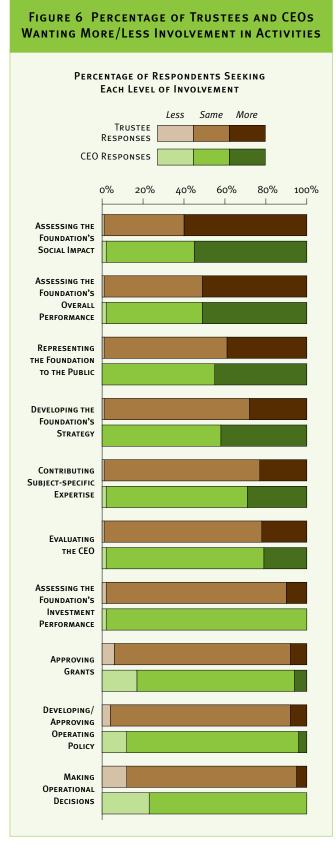
Based on our interviews, CEOs seem to perceive the difficulty in fulfilling this shared wish as related to the inherent difficulty of assessment of foundation work. In the words of one CEO: "I think the real challenge is figuring out what are indicators of progress that you want to be looking at in order to understand what the contributions of the foundation are, into the community and into the issues that you care about. And, I think that's a huge, ongoing

discussion, something that we need to really learn from, and refine, over the course of years."

One trustee described the challenge from her perspective: "I think we want to see the results of what these organizations are doing out there. We want to see them moving forward, we want to see things getting better, we want to see more organizations working together. And that's one of the things that hasn't happened yet."

The shared sense that spending more time on assessment is a priority for both CEOs and trustees

A majority of trustees want greater involvement in assessment of foundation impact and performance.

provides an opportunity to reshape board agendas in a way that focuses greater attention on these issues. This will necessitate spending less time on some topics, but there are a number — such as developing operating policy, making operational decisions, and approving grants — in which very few trustees or CEOs want to spend more time.

To improve board member perceptions of board effectiveness, trustees and staff can

- work together to streamline and focus board materials and agendas on the topics of greatest importance to the board

- ensure that other business does not crowd out important discussions, such as those related to strategy and assessment

POSITIVE RELATIONSHIP WITH THE CEO

The fourth predictor of trustees' ratings of board effectiveness is the board's relationship with the CEO. This *positive relationship with the CEO* characteristic is based on one question: "How satisfied are you with the board's relationship with the CEO?"

We also asked CEOs to rate their relationship with their boards. As with most relationships, if things are not going well, both parties know it. We found a very strong correlation between the average board rating of its relationship with the CEO and that CEO's rating of the relationship with his or her board.

Many trustees stressed the importance of communication in contributing to a healthy relationship between the board and the CEO. One trustee commented in an interview that, "[Our CEO] follows up, he talks to you one-on-one. He'll call you and see how things are going… and, frankly, I think it's important in today's governance that… we get this sort of open communication [so that] there aren't things that are falling through the cracks."

Trustees describing less positive relationships asked for "better communication with the executive director." One trustee said, "The CEO must be more open in sharing negatives as opposed to primarily the positives." In an interview, another trustee summarized the challenge for CEOs: "I think a good [relationship between a board and a CEO]… has great openness, lots of candor, an enormous amount of trust and confidence that your trustees, with your help, can be experts at helping you direct and manage. [A good relationship requires] a willingness to own up when things are not working effectively — or a strategy is not working effectively. It's about trust and candor and confidence, all of which underpin great leadership relationships in any organization."

Communication outside board meetings is particularly important. CEOs spend, on average, 11 hours each month talking to trustees outside meetings. These conversations cover a broad array of topics,

"It's about trust and candor and confidence, all of which underpin great leadership relationships in any organization."

with foundation policy, management, and governance issues cited most frequently. CEOs view their relationship with their boards more positively if they see the board members as bringing high-quality concerns to their attention.[16]

One CEO described the less tangible aspects of the relationship, noting that the role can be "kind of lonely." She said, "Words go a long way.… CEOs are human, and part of a board's work is not just to assess your performance but also to nurture and develop you."

Finally, it is probably reasonable to assume that the formal CEO assessment process is a crucial element of the CEO–board relationship, although the number of

CEOs who do not experience such a process is too low for us to analyze differences in order to conclusively demonstrate that link. Eighty-five percent of CEOs reported being formally evaluated by their boards on a regular basis — typically annually.

To improve board member perceptions of board effectiveness, trustees and CEOs can

- take measures to remedy any perceived weakness in the CEO–board relationship, as any shortcomings are likely to be felt by both parties

- use formal processes (such as CEO evaluation) and candid, informal communication (such as conversations between meetings) to both build and maintain their relationship

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Opportunity for Influence and Respectful Dissent in Board Meetings

The fifth predictor of trustees' ratings of board effectiveness is their comfort participating in meetings. *Opportunity for influence and respectful dissent in board meetings* is a factor based on three highly correlated questions on the survey relating to perceptions of equality among all board members (with the exception of the chair and the CEO) in influencing the entire board, comfort in taking opposing sides from other board members during meetings, and comfort in taking opposing sides from staff during meetings.

Board members described boardroom dynamics in a variety of ways. Negative descriptions of group dynamics tend to focus on a culture of politeness that precludes real discourse. One trustee survey respondent confessed that board conversations were limited because "the board acts in a polite, generally collegial style [and]… members avoid controversy and addressing difficult issues." Positive descriptions of group
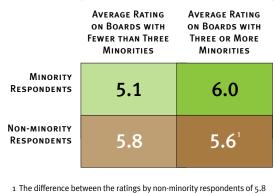
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16 We asked CEOs to rate the overall quality of concerns brought to them by their board members both in and out of official meetings, and answers were strongly correlated with the CEOs' ratings of their satisfaction with their relationship with their board.

Board Diversity and Perceptions of Equality of Influence

Of trustees responding to our survey, 19 percent identified themselves as members of racial minorities — and responses to survey questions did not differ between non-minority and minority trustees. However, our analysis reveals an important dynamic with respect to race in the boardroom: The number of minorities on a board is related to ratings of equality of opportunity to influence the board — with members of minorities who are one of only one or two minorities in the boardroom perceiving less equality of influence.

Relationship of Number of Minorities on the Board to Perceived Equality of Influence

Do you think each board member (with the exception of the chair and the CEO) has equal opportunity to have influence on the board? (1–7 scale)

	Average Rating on Boards with Fewer than Three Minorities	Average Rating on Boards with Three or More Minorities
Minority Respondents	5.1	6.0
Non-minority Respondents	5.8	5.6 [1]

1 The difference between the ratings by non-minority respondents of 5.8 on boards with fewer than three minorities and 5.6 on boards with three or more minorities is not statistically significant.

Note: Averages are based on 19 minorities and 136 non-minorities from 17 foundation boards with fewer than three minority members and 77 minorities and 285 non-minorities from 22 foundation boards with three or more minority members. Trustees included in this analysis self-identified their race.

Specifically, people of color who were members of the 17 boards with only one or two minorities serving on the board answered the question related to whether each board member (with the exception of the chair and CEO) has equal opportunity to have influence on the board lower than did the non-minorities on the same board — and lower than did minorities on boards with a greater minority presence.[1] On the 22 boards with three or more minority trustees, minority ratings on this dimension are significantly higher.[2]

In an interview, one CEO who described his own board's evolution as it has become more diverse in a variety of ways noted that "[diversity] brings with it sometimes greater work to do to achieve consensus and to maintain harmony and forward progress. But in comparing decisions made now with those previously made, I think everyone would agree we know so much more about the organizations and the field which we are serving. We simply have more knowledge."[3]

For those boards that have only one or two board members who are members of racial minority groups, it is important to understand the dynamic that appears to exist with respect to perceptions of equality of opportunity to influence the board. Understanding that dynamic creates an opportunity for it to be addressed and ameliorated, such that members of racial minorities feel able to influence outcomes in the boardroom to the same degree as their non-minority colleagues.

1 Analysis of differences between minorities and non-minorities controlled for board size and tenure of individual trustees. We found no difference between minority and non-minority ratings of board dynamics based on percentage of minorities serving on the board.

2 John Michael Daley and Julio Agnulo, "Understanding of the Dynamics of Diversity Within Nonprofit Boards," *Journal of Community and Development Society*, vol. 25 num. 2 (1994): 174. The authors distinguish between "demographic diversity (having a diverse board composition) and functional diversity (incorporating the diverse voices of perspectives into the policy-making process)."

3 Similar analysis was conducted for gender. We found no differences between men and women on ratings for any question on the survey. Analysis taking into account the number of women on the board also revealed no differences in male and female ratings.

dynamics emphasize the presence of healthy disagreements, which allow the board to reach fully investigated decisions. One trustee survey respondent praised his board's discussions: "The outstanding trait of this board is its candor. There are no forbidden topics or sacred cows. Our trustees seem to be free to comment on anything they want. Because of this, our discussions are open, challenging, engaging, and informative. This leads to a high level of discussion that clarifies and refines issues, decisions, and consequences."

The facilitation of discussion in the boardroom is typically the responsibility of a board chair, but our data suggest that chairs often do not accurately perceive boardroom dynamics. Chairs rated their perceptions of equality among all members and board members' comfort in opposing other trustees higher than did others on their boards. In contrast, CEO perceptions of these dynamics appear to be more in line with the majority of their trustees. This suggests that board chairs might benefit from their CEOs' perspectives

on board dynamics. This is particularly important in light of the fact that some chairs may serve for long periods of time; only 44 percent of boards in our survey have a formal process for rotating trustees into the chair position. The powerful role of the chair in shaping dynamics was clear in trustee comments. One survey respondent wrote that the board would be more effective "if the chair would let consensus build from the board before forcefully stating his position and summarily ending the discussion." Another trustee praised a chair who "goes around the room and makes sure everybody has their say. ...Some people may not necessarily agree with the final outcome, but they do agree... that the process worked."

Finally, dynamics are affected by the specific composition of a board. Minorities on boards with only one or two minority members rated the equality of opportunity to influence board decisions lower than their non-minority colleagues (*Board Diversity and Perceptions of Equality of Influence*, page 19). And, at family foundations, family members rated key dimensions of their experience differently than did the independent trustees with whom they serve (*Differences in Perceptions between Family and Non-family Board Members*).

> **To improve board member perceptions of board effectiveness, board chairs can**
>
> - be mindful of ensuring that all trustees feel comfortable fully participating in meetings
>
> - understand the limits of their own perspectives on board dynamics and find ways, such as conversations with CEOs, to learn how others view boardroom dynamics
>
> - be aware of key dynamics related, for example, to diversity or the role of family in the boardroom, so that the full contribution of each member can be realized

Our data suggest that chairs often do not accurately perceive boardroom dynamics.

DIFFERENCES IN PERCEPTIONS BETWEEN FAMILY AND NON-FAMILY BOARD MEMBERS

All but two of the 22 family foundations in our study have augmented their boards with trustees who are not related to the founding donor. One family trustee noted in an interview that "We don't have to have outside board members, but they add a great deal to the discussion, to the interpretation of what we're trying to do — and where we want to go." Our analysis revealed, however, some important differences between family and non-family members on these boards in ratings of group dynamics and trustee utilization.

Compared to non-family trustees, trustees who are related to the original donor reported that they are less clear about their role on the board and less satisfied with the utilization of their skills. These differences in trustee perceptions may be due in part to the fact that independent board members are frequently brought onto family foundation boards to address specific gaps in the board's expertise — and therefore join the board with clearer expectations of how the board wants them to contribute. As one family foundation board member said in responding to our survey, "Most outside board members have an area of expertise, and others listen to them when talking about their areas of expertise."

Members of the donor family were also less likely to give high ratings than were their non-family colleagues on the dimension of comfort in opposing other board and staff members in board meeting discussions. Another survey respondent from a family foundation said board members are "sometimes reluctant to disagree with each other when it would be entirely appropriate." Not surprisingly, non-family board members also rated their active participation in meeting discussions higher than trustees who are family members.

Differences also exist in the tenure of family and non-family board members. Relatives of the original donor have an average tenure of 14 years as compared to an average tenure of eight years for non-family trustees on family foundation boards. Forty-eight percent of trustees who are family members said they planned to serve on the board indefinitely.

Conclusion

The vast majority of foundations in our study have already discussed governance issues and made changes to their governance structure as a result of external scrutiny. Their challenge now is to maximize the effectiveness of the foundation board.

To foundation trustees, the key drivers of board effectiveness relate to an appropriate mix of trustee capabilities and utilization of those skills; engagement in strategy development and impact assessment; focus of discussions on important topics; a positive relationship with the CEO; and opportunity for influence and respectful dissent in board meetings. This, in essence, is the foundation trustee definition of board effectiveness, shared by trustees of private foundations with family on their boards and those without, as well as by community foundation trustees. It has a number of practical implications for how board members, board chairs, and CEOs act.

There are a variety of resources that exist for foundations seeking to improve their boards' effectiveness. In the course of this study, CEP piloted a board self-assessment tool, the Comparative Board Report (CBR), which we made broadly available in the fall of 2005. We have already seen the CBR spur significant changes in board structure and practice by identifying key areas requiring board attention based on an individual foundation's results. In addition, a variety of other organizations offer resources to nonprofit boards that are valuable in the context of the findings discussed here, most notably BoardSource, one of our partners in the Foundation Governance Project.[17]

In the next phase of the Foundation Governance Project, we will seek to further understand the nuance and complexity underneath the findings described here. We will do this by comprehensively analyzing the transcripts of our 45 interviews with foundation CEOs and trustees and by developing case studies related to the key predictors of perceived board effectiveness. And, as we develop a more complete set of data on foundation performance based on our other research, including our ongoing grantee perception surveys, we will seek to connect board practice to foundation performance on CEP's other indicators of foundation effectiveness. This will allow us to begin to attempt to link more directly board practices to foundation performance.

The goal of this work, of course, is to maximize the effectiveness of foundation boards. Our pursuit of this goal is based on a belief that, especially for foundations — which are largely immune from the accountability pressures buffeting other entities in our society — the board can act as a powerful force to improve effectiveness. Our findings suggest that board members' conception of board effectiveness goes well beyond the basics of compliance or guarding against malfeasance. Furthermore, the data we have gathered show that both boards and CEOs see opportunities for greater involvement in key areas, such as assessment. Our future work will focus on further understanding what obstacles exist to achieving this vision of foundation governance — and on what foundation trustees and CEOs can do to remove those obstacles.

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17   Information and resources on nonprofit governance, including BoardSource's most recent publication, *The Source*, are available at www.boardsource.org. BoardSource, *The Source: Twelve Principles of Governance That Power Exceptional Boards* (2005).

Methodology

Selection of Foundations

The 520 largest foundations in the country, as determined by reported asset size, were identified for possible inclusion in this study.[18] This initial list included both private and community foundations but excluded corporate and operating foundations. Further criteria for selection to participate included the presence of administrative foundation staff and of at least five board members (non-bank trustees), not including the CEO.

Following these additional criteria, the original list of 520 foundations was culled down to 415 foundations whose CEOs and board chairs were invited to take part in this study. As part of the invitation, foundations were told that their inclusion in the research was contingent on at least two-thirds board member participation in the survey and the completion of a separate CEO survey. Fifty-three foundations were included in our research; this constituted a 13 percent response rate from our outreach to 415 boards and represented a total of 607 trustees and 53 CEOs.

The 53 foundations that participated are broadly reflective on a number of dimensions of the 415 foundations contacted — although we make no assertion that the 53 are representative of the 415.[19] The proportion of community foundations was slightly higher in our sample of participants than in the larger group of foundations initially contacted (26 percent vs. 15 percent). There was also some difference in representation from different asset ranges. Our sample included a higher percentage with assets above $1 billion (19 percent vs.

nine percent) and fewer foundations with assets between $100 million and $250 million (33 percent vs. 54 percent). Geographical composition of participating foundations is representative of the composition of all 415 foundations contacted to participate in the study.

Data Analysis

Predicting Perceptions of Effectiveness

The main analytic goal of this study was to identify the best predictors of trustee perceptions of board effectiveness. These predictors were arrived at via stepwise linear regression analysis.[20] The list of possible predictors for inclusion in the regression included those variables correlated with effectiveness at a level of 0.30 or above as well as factors created through a factor analysis.

Exploratory factor analyses were conducted to determine whether variables measuring similar constructs could be combined into more powerful measures of shared underlying constructs.[21] (See Figure 2, page 8 for a summary of the results from the linear stepwise regression analysis and a description of each factor's components.)

Structure of Data

The data collected have a hierarchical nature: Trustees are nested within foundations. Trustees responded individually but share characteristics with a set of other respondents by virtue of belonging to the same foundation board. To determine how much variation

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18 The list used for the invitation to participate in Phase II of the Foundation Governance Project was created using asset sizes as reported on *The Foundation Directory 1 & 2 on CD-ROM, Update* (2004), distributed by The Foundation Center.

19 It is reasonable to assume, for example, that those who responded to our invitation were those with CEOs and/or boards who would tend to be more keenly interested in governance issues than those who did not.

20 Due to the skewed nature of the effectiveness variable, a linear as well as an ordinal regression model was run; results from both types of models matched.

21 Factor analyses were conducted with oblique rotation and maximum likelihood extraction.

in perceptions of board effectiveness could be attributed to the hierarchical nature of trustees nested within foundations, multilevel models were used.[22]

The multilevel models indicated that 18 percent of the variance in board effectiveness was due to characteristics that all trustees on the same board have in common rather than to individual differences among trustees on the same board.[23] Therefore, the ratings of effectiveness from trustees within a foundation were more similar than were the ratings of trustees in different foundations; ratings of effectiveness among trustees in a given foundation were correlated at a value of 0.18. Due to these correlated ratings of trustees within a foundation, multilevel models were used to test whether or not the best predictors of effectiveness differed across five foundation characteristics: foundation type, asset size, average board tenure, board size, and number of board committees. Results indicated that the same set of predictors of effectiveness held true across differences in these foundation-level variables.

Analytic Decisions

An alpha level of 0.05 was used to determine statistical significance for all statistical testing conducted with these data. Only statistical findings at or above a medium effect size are discussed in this report.[24] An effect size is a standardized measure of the magnitude of relationship between variables. It therefore provides information about statistical findings that a statistical significance level cannot provide. Using effect sizes allows for comparison of the magnitude of relationships between variables across different data sets.

To investigate the existence of a relationship between two items on the 1 to 7 scale, correlation coefficients were examined; only correlation coefficients equal to or greater than a value of 0.30 are discussed in this report as this is the magnitude equal to a medium effect size. For investigating whether or not a difference existed in the ratings on a 1 to 7 item between two groups (e.g., trustees who attended a

training session specific to the foundation vs. trustees who did not attend such a session), t-tests were conducted. The effect size for a t-test is calculated by comparing the means of the two groups used in the t-test in relation to their pooled variances.

Additional regression analyses, correlation analyses, and t-tests on effectiveness, as well as myriad other variables in the survey, were conducted at the board as well as at the trustee level. Where questions were asked about individual trustee perceptions, analyses were carried out at the trustee level. Where questions were asked about the board as a whole, analyses were carried out at the board level.

Qualitative Interviews with Trustees and CEOs

To further understand the results of our statistical analysis, qualitative interviews were conducted with a sample of trustees and CEOs. Questions for these interviews were designed to further explore findings from our analysis of the survey data.

To ensure that a representative subsample of survey respondents would be included in the interviews, a stratified random sample of trustees was selected; the sample was stratified by median trustee rating of effectiveness, median asset size, and foundation type (community, private, family). A total of 25 trustees were interviewed. CEOs were contacted for permission to interview trustees and to provide contact information for their trustees. A stratified random sample of 20 CEOs was selected for interviews as well; stratification was based on median asset size and foundation type. The 45 individuals interviewed were affiliated with 31 different foundations.

Interview results and open-ended comments from survey responses are drawn on throughout this report to elucidate findings from our statistical analysis. A complete thematic analysis of interview transcripts, as well as selected case studies, will constitute Phase III of the Foundation Governance Project.

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22 Anthony Bryk and Stephen Raudenbush, *Hierarchical Linear Models* (Newbury Park: Sage Publications, 1992).

23 Due to the skewed nature of the effectiveness variable, a linear as well as an ordinal multilevel model was run to estimate the amount of variation due to characteristics shared among trustees within a foundation; results from both types of models differed by less than 1 percent.
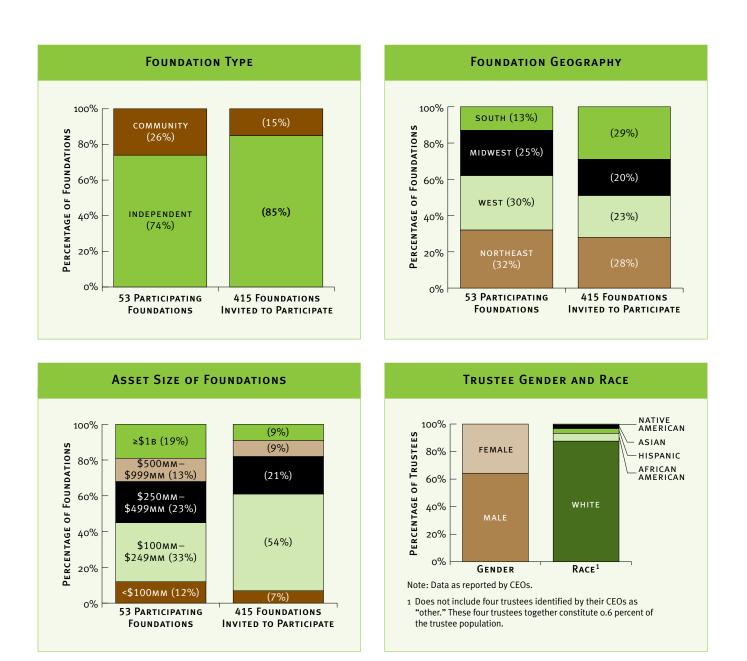
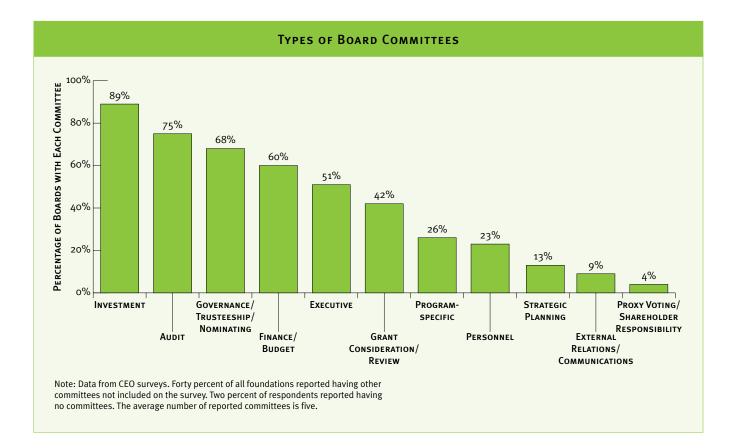24 Cohen, "A Power Primer," 155–159.

Appendix A:
Foundation Participants

The Altman Foundation
Blandin Foundation
California HealthCare Foundation
Charles Stewart Mott Foundation
China Medical Board of New York
The Christensen Fund
The Claude Worthington Benedum Foundation
The Colorado Trust
The Community Foundation for Greater Atlanta
Community Foundation for Greater Buffalo
The Community Foundation of New Jersey
Conrad N. Hilton Foundation
The David and Lucile Packard Foundation
The Duke Endowment
East Bay Community Foundation
Endowment for Health
Flinn Foundation
The Ford Family Foundation
The Francis Family Foundation
Grand Rapids Community Foundation
The Greater Cincinnati Foundation
Harold K.L. Castle Foundation
Health Foundation of Greater Cincinnati
Houston Endowment
Hyams Foundation
The James Irvine Foundation
The Jessie Smith Noyes Foundation
The John R. Oishei Foundation
John S. and James L. Knight Foundation
The Kresge Foundation
Lloyd A. Fry Foundation

Lumina Foundation for Education
Maine Community Foundation
Maine Health Access Foundation
Marin Community Foundation
The Minneapolis Foundation
New Hampshire Charitable Foundation
Peninsula Community Foundation
Raskob Foundation of Catholic Activities
Rasmuson Foundation
Richard M. Fairbanks Foundation
The Robert Wood Johnson Foundation
Rockefeller Brothers Fund
The Rockefeller Foundation
The San Diego Foundation
The San Francisco Foundation
Stark Community Foundation
Surdna Foundation
Theodore and Vivian Johnson
    Scholarship Foundation
The Virginia G. Piper Charitable Trust
The Wallace Foundation
Woods Fund of Chicago
Z. Smith Reynolds Foundation

Note: In addition to the foundations listed above, three foundations' boards completed an early version of the survey: The Columbus Foundation, the Libra Foundation, and The William and Flora Hewlett Foundation. We are grateful for their support and participation.

Appendix B: Data on Foundation Participants

Foundation Type

Percentage of Foundations

53 Participating Foundations:
- COMMUNITY (26%)
- INDEPENDENT (74%)

415 Foundations Invited to Participate:
- (15%)
- (85%)

Foundation Geography

Percentage of Foundations

53 Participating Foundations:
- SOUTH (13%)
- MIDWEST (25%)
- WEST (30%)
- NORTHEAST (32%)

415 Foundations Invited to Participate:
- (29%)
- (20%)
- (23%)
- (28%)

Asset Size of Foundations

Percentage of Foundations

53 Participating Foundations:
- ≥$1B (19%)
- $500MM–$999MM (13%)
- $250MM–$499MM (23%)
- $100MM–$249MM (33%)
- <$100MM (12%)

415 Foundations Invited to Participate:
- (9%)
- (9%)
- (21%)
- (54%)
- (7%)

Trustee Gender and Race

Percentage of Trustees

Gender:
- FEMALE
- MALE

Race[1]:
- NATIVE AMERICAN
- ASIAN
- HISPANIC
- AFRICAN AMERICAN
- WHITE

Note: Data as reported by CEOs.

1 Does not include four trustees identified by their CEOs as "other." These four trustees together constitute 0.6 percent of the trustee population.

TYPES OF BOARD COMMITTEES

Note: Data from CEO surveys. Forty percent of all foundations reported having other committees not included on the survey. Two percent of respondents reported having no committees. The average number of reported committees is five.

Appendix C:
The Comparative Board Report

The 53 individual foundations that participated in Phase II of the Foundation Governance Project received detailed data placing their practices, structures, and trustee perspectives in a comparative context in a pilot version of a new assessment tool called the Comparative Board Report (CBR). Foundation boards used the CBR as a basis for discussions about board performance and made real changes based on their discussions, including

• expansion of a board to bring on needed, relevant skills

• refocusing of agendas to free up time in key areas, such as strategy development, where boards want more engagement

• revisions of board materials to be more streamlined and focused on key, strategic issues

• re-examination of board dynamics in the face of evidence of a lack of comfort opposing staff and/or other board members

To learn more about the CBR please contact:

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Board Effectiveness

Q: Overall, how effective do you think the board is?

Trustees at the Sample Foundation perceive their board to be less effective than trustees at other foundations in the survey sample.

Very effective 7

6

1-7 Scale

5

4

Not at all effective = 1 3

All Foundations

Average Rating
Sample Foundation

In general, average trustee responses to most questions cluster between the midpoint and the high end of the absolute scale (between 4 and 7).

Trustee comments on ways to improve their board's effectiveness

• "We are weighed down by excellent materials with no time to discuss them."

• "We take full advantage of our investment and finance expertise but not enough in a formal way our expertise in education and the arts."

• "To be more effective we should back away from some of the operational procedures and spend the time on strategic, long-term sustainability."

The Trustee Viewpoint on Effective Foundation Governance

Key Characteristics that Predict Trustee Perceptions of Board Effectiveness

To Improve Board Member Perceptions of Board Effectiveness, Trustees and CEOs Can

Appropriate Mix of Trustee Capabilities and Utilization of Those Skills

- candidly review board capabilities and programmatic expertise, identifying areas of underutilization of current trustees and assessing the need for augmentation of skills through the addition of new board members
- reconsider the process by which the trustee role is communicated and consider adding a formal, in-person orientation session for new trustees if one does not currently exist
- assess the ongoing training needs of experienced trustees – and invest in meeting those needs

Engagement in Strategy Development and Impact Assessment

- discuss how the foundation will achieve its mission and develop, with significant board involvement, a strategic plan that ties grantmaking and other activities to desired outcomes
- clarify the role each will play in developing foundation strategy and establish a clear process for strategy development and review
- give priority in the boardroom to strategy development, understanding, and assessment
- identify and clearly communicate performance targets to assess progress against strategy

Focus of Discussions on Important Topics

- work together to streamline and focus board materials and agendas on the topics of greatest importance to the board
- ensure that other business does not crowd out important discussions, such as those related to strategy and assessment

Positive Relationship with the CEO

- take measures to remedy any perceived weakness in the CEO–board relationship as any shortcomings are likely to be felt by both parties
- use formal processes (such as CEO evaluation) and candid informal communication (such as conversations between meetings) to both build and maintain their relationship

To Improve Board Member Perceptions of Board Effectiveness, Board Chairs Can

Opportunity for Influence and Respectful Dissent in Board Meetings

- be mindful of ensuring that all trustees feel comfortable fully participating in meetings
- understand the limits of their own perspectives on board dynamics and find ways, such as conversations with CEOs, to learn how others view boardroom dynamics
- be aware of key dynamics related, for example, to diversity or the role of family in the boardroom, so that the full contribution of each member can be realized

Source: *Beyond Compliance: The Trustee Viewpoint on Effective Foundation Governance,* © The Center for Effective Philanthropy, Inc., 2005

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*Providing comparative data to
enable higher-performing foundations*