

Board Effectiveness Assessment Report

Prepared for the System Dynamics Society of New York



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Introduction

This report summarizes strengths, challenges, key findings, and recommendations for the improved effectiveness of the System Dynamics Society Policy Council (SDSPC or PC). The reader will be guided through a brief contextual summary of the System Dynamics Society and the Policy Council, a conceptual framework of board effectiveness, the methodologies utilized in this study, a synthesis of the findings, and recommendations for the Policy Council based on these findings. The Policy Council is the board of directors of System Dynamics Society, which is a 501c3 nonprofit incorporated in Massachusetts but operating in New York State, and therefore subject to relevant New York State regulations. In this case, the most pertinent regulation is the 2013 Nonprofit Revitalization Act, which was introduced to improve the transparency and accountability of New York nonprofits and their boards. Several elements of the NPRA are relevant to the SDSPC; the implications of this will be covered in detail later in the report (Schneiderman, 2013).

System Dynamics Society Background

System Dynamics Society is a 501c3 nonprofit organization, incorporated and based in Massachusetts, and operating out of Albany, NY. It is a professional society whose focus is to promote the development of the field of system dynamics and the free interchange of information about systems as they are found in all fields. System dynamics is “a computer-aided approach to policy analysis and design. It applies to dynamic problems arising in complex social, managerial, economics, or ecological systems” (*Introduction to system dynamics*). SDS’s vision for the field is that “System Dynamics will transform society by making improvements to decision-making in government, commerce, and other organizations” (*The System Dynamics Society’s vision for the field*).

SDS is an international membership organization, with approximately 1,100 members worldwide in 2014, and an annual budget of approximately \$500,000 (GuideStar USA, Inc.). Members pay fees on a sliding scale based on their income. The main activities of the organization are the publication of a peer-reviewed journal, *System Dynamics Review*, and the organization of an annual conference which is held either in the US, in Europe, or in Asia each year. SDS also engages in various smaller-scale activities all aimed at promoting the field of system dynamics in general, and encouraging the networking and collaboration

of professionals in the field. Being a large international organization, approximately 20 global chapters of SDS operate in as many countries. Approximately 10 Special Interest Groups (SIGs) operate within SDS as well. These are different from chapters because they do not operate as standalone organizations and cannot collect membership dues and other privileges afforded to chapters. SIGs are generally formed by members of SDS with a shared interest in a specific subset or component of system dynamics, such as its application to education, economics, etc. (*About the society*).

System Dynamics Society Policy Council

The information on SDS's board structure was gleaned from the SDS website and from interviews with the executive leadership. As mentioned earlier, The System Dynamics Policy Council (SDPC) is the SDS board of directors. It is composed of 13 officers and several policy council members that do not hold specific offices but do have voting power. The officers are the President, President Elect, Past President, Founding President, Secretary, Vice President Chapter Activities, Vice President Electronic Presence, Vice President Finance, Vice President Marketing & Communications, Vice President Meetings, Vice President Membership, Vice President Professional Practice, and Vice President Publications. There are also several Assistant Vice Presidents for Chapter Activities, Electronic Presence, Finance, and Meetings. They are not members of the Policy Council but are there to support the VPs in their corresponding roles, and to take over for the current VP in said role if need be. A variety of standing committees also answer to, but are not made up of members of, the Policy Council. These committees include the Society Program Oversight Committee, Nominating Committee, Strategy Development Committee, Awards Committee, Publications committee, Organization and Bylaws Committee, and Administrative Committee.

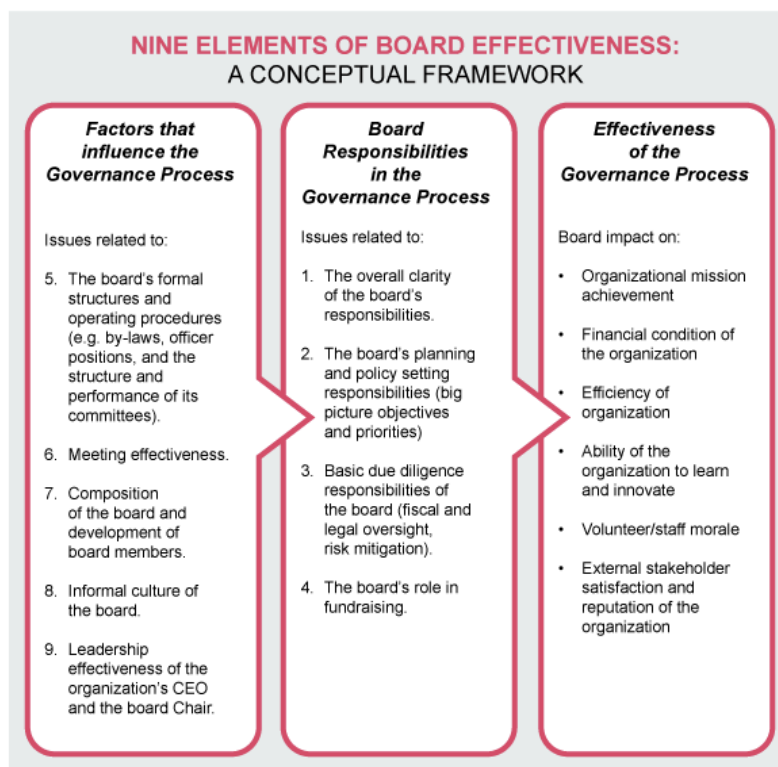
Vice Presidents serve for a term of three years, and presidents and secretaries serve for one year only. To help with succession planning, the past president and president elect are members of the SDPC along with the current president, and the past president is on the nominating committee for the next president. It is possible to apply to be a PC member on the website, but most recruitment happens through word of mouth. Most PC members are selected based on their expertise in the field of system dynamics.

It should be noted at an element of System Dynamics Society's Bylaws. "Bylaw V. Officers" states that "The president shall be the chief executive officer of the Society, performing all duties required by the Bylaws and Policies as well as any additional duties specified by the policy council" (System Dynamics Society, 2013). There is a provision in the New York Nonprofit Revitalization Act of 2013 that "no employee of the organization may serve as chair of the board or hold any other title with similar responsibilities" (Patterson Belknap Webb & Tyler LLP, 2014). While the majority of the provisions in the NPRA went into effect in July 2014, this particular provision was delayed until January 1, 2016 (Goltser, Grapas, & Gershowitz). This provision prevents the President of the Policy Council also holding the title of Chief Executive Officer. The Policy Council should address this issue immediately in order to remain compliant with nonprofit law in New York State, or they risk losing 501c3 status (Schneiderman, 2013). This change must be implemented by January 2016 in order to remain in compliance. Specific recommendations for how to move forward with this change are addressed in the "Recommendations" Section.

Conceptual framework

In July 2014, the SDPC self-assessed board performance utilizing the Board Checkup and the assistance of a graduate student. True to its name, the Board Checkup is based on the same logic as a checkup one would get at the doctor. Board members are guided through a list of potential "health issues" that have been found to be common challenges that nonprofit boards deal with. These are the symptoms that then become focal points for discussions about whether these challenges exist, how serious they might be, what might be causing them, and how they can be improved or resolved (Murray & Harrison, 2014).

The Board Checkup is based on a conceptual framework that separates the challenges that boards face into two dimensions: "(a) the board's roles and responsibilities as a governing body; and (b) the factors that influence how well the board carries them out" (Murray & Harrison, 2014). Nine core sets of board effectiveness challenges exist within these two dimensions, and are illustrated in the graphic below.



The five factors that influence the governance process influence the effectiveness of the board in carrying out its governance role and responsibilities. The Board Checkup surfaces issues that challenge boards so that the board in question can gain a clear image of its strengths and challenges. While contextual elements are measured, they are not a main focus of the results of the board's survey for the purposes of board developments, but are part of a larger research project. The main purpose of the survey is to focus on symptoms, diagnosis, and treatment (Murray & Harrison, 2014).

Methodology

I utilized a mixed method approach throughout this study, employing both quantitative and qualitative methods and data. I conducted a variety of interviews² and made observations while assisting with board development efforts that were initiated following the 2014 assessment and graduate student report. I also spent time revising the

¹ Harrison, Y. (2012). *Nine elements of board effectiveness: A conceptual framework*. Retrieved from <http://betterboards.net/performance-metrics/board-performance-assessment/>.

² Interviews consisted of several meetings and conference calls with executive leadership, policy council members, committee members, office staff, and paid board development consultant.

System Dynamics Society organizational chart, which was a highly informative process as it required me to gain a refined knowledge of the different levels of authority within the Policy Council and the organization as a whole, as well as weak links and potential problems. Finally, to put these observations in context, I studied the bylaws, policies, and articles of organization, and analyzed them in the context of board structure best practices and legal requirements. I also analyzed the raw quantitative data already available from the survey administered in July 2014. I analyzed perceptions of SDS board effectiveness by computing an overall score, scores in the dimensions of board effectiveness that the board checkup assessed, and individual items to identify board strengths and challenges.

Synthesis of findings

The survey administered to the SDPC was “started by 19 and completed by 13 respondents for a 68% completion rate” (Storm, 2014). The overall score was 211/272 which indicates that the board is likely moderately effective but may need major changes in some areas (Murray & Harrison, 2013). When analyzing averages and totals in each category in and of themselves, the Policy Council scored in either the highest or second-highest tier for each category of questions. The sub-scores and interpretations of each follow:

Table 1

Scores Within the Nine Dimension of Board Effectiveness Assessed³

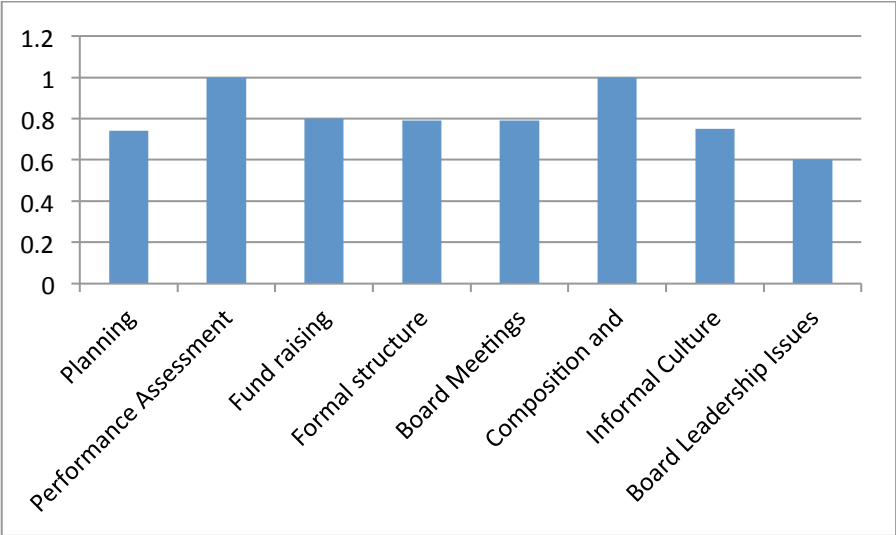
Category	Score
Basic board responsibilities	16/20
Board responsibilities for planning	<i>23/36</i>
Board’s role in performance assessment	15/20
Board’s role in fund raising	9/12
Issues related to the formal structure of the board	36/44
Issues related to board meetings	37/44
Issues related to the composition of the board and board development	<i>15/24</i>
Issues related to the informal culture of the board	21/28
Board leadership issues	39/44
Total	<i>211/272⁴</i>

Source: Board effectiveness survey application

³ Bold score indicates highest category, italicized score indicates highest category.

⁴ “A moderately effective board. May need some major changes and further development” (Murray & Harrison, 2013).

Closer analysis of these numbers, however, shows a moderately high average standard deviation in responses for each category. A minimal range of difference in answers is .5 or less, a moderate range is .51-1.0, and a wide range of differences is greater than 1.0. While the overall scores for each category indicate a moderately to extremely high-performing board, the high standard deviations in each category indicate a lack of agreement among board members regarding board effectiveness. In the board leadership issues category in particular, a notable 31% of respondents marked 45% of the answers as “does not apply.” This indicates a need for discussion and clarification regarding governance roles, responsibilities, and expectations of Policy Council members. Observations and discussions throughout the semester validate this analysis of board structure and role clarity being a central issue in the Policy Council.



1: Average Standard Deviations for Each Category

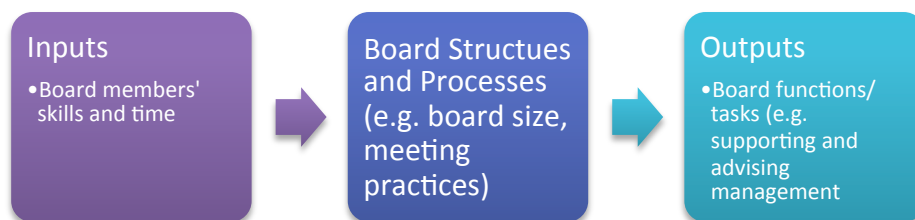
Discussion

Board structure is not everything, but it is the foundation; boards will find it extremely difficult to develop and improve other facets of board performance without an efficient and appropriate structure and set of processes. This section will highlight some prominent findings regarding best practices in board structure and process, as well as several conceptual frameworks that will be helpful in understanding how these structures and processes impact board effectiveness. These best practices and conceptual

frameworks, combined with the data from the study, will advise the recommendations made in the following section.

A variety of conceptual frameworks have emerged in recent years that illustrate different ideas about factors that affect board and organizational effectiveness in nonprofits. Chris Cornforth developed a useful conceptual framework to illustrate the centrality of effective structures and processes in his exploration of relationships between board inputs, structures, processes and effectiveness in non-profit organizations. The framework is illustrated below.

“Outputs” in this context are the various functions the board performs, which Cornforth categorizes as follows: “strategic direction and policy making; external accountability and relations with stakeholders; supervising and supporting management; stewardship of the organisation’s resources; and board maintenance” (Cornforth, 2001, p. 219). Inputs are the skills, experience, and time of board members. The “structures and processes” are the mechanism through which the skill/experience and time of board members are transformed into useful outputs. It is easy to understand from this perspective how central board structures and processes are. They can be compared to a car engine. You need fuel (inputs) for a car to run, but you also need a functional and efficient engine, or that fuel will not get you anywhere, or it will be used very inefficiently and the vehicle will wear out in a short period of time.



2 Influences on board performance (Cornforth, 2001, p. 219)

Cornforth defines board structures as “processes that have become formalized and codified, and that subsequently constrain board process and behavior...” (Cornforth, 2001, p. 219). Some examples are board size, the existence and number of committees, frequency of meetings, and the existence or lack of job descriptions for board members. Processes are the way these structures are utilized: how board meetings are conducted, board role

clarity, having a shared vision for the organization, quality of communication, and how often (or not) the board reviews how it works together.

Chait et. al. also discuss the importance of structure in their book *Governance as leadership: Reframing the work of nonprofit boards*. They posit that “As in architecture, form should follow function” (2005). Too often the reverse happens, and function follows form. One cannot expect open lines of communication, cultivation of strategic partnerships with management, and a spirit of openness and innovation to prevail in a setting where the board’s structure is outdated and not built with those goals in mind. They emphasize the necessity for board structure to be flexible and adapted to strategic priorities, not operational priorities. Having multiple standing committees with operational responsibilities but few committees or task forces devoted to governance naturally sets the board up to be less strategic and at risk for governance ineffectiveness. This does not mean that there should be no standing committees or that they all must be strategic; it means that the existence or lack of committees should reflect what the board is expected to do. Chait et. al. do, however, recommend a migration toward the adoption of task forces and ad-hoc work groups in place of committees wherever possible, in order to “ensure that a new structure does not become as ossified as the old one” (Chait et. al., 2005). They also recommend implementing a standard governance or executive committee that should conduct annual or biannual reviews of board structure to remain cognizant of the continuing needs to evolve board structure.

Murray and Harrison (2014) discuss three important aspects of board structures: The size of the board, the number and nature of formal officer positions within the board, and the board’s committee structure. There are no one size fits all models for boards, but they offer some general recommendations. In general, boards should avoid having more than 15 members. Beyond this point, the board tends to become inefficient, and it becomes difficult to foster an environment of open discussion with such a large group. Smaller more powerful groups naturally tend to develop, made up of more engaged board members. This is not necessarily a problem as long as their power and influence is kept in check by the board at large, but if at all avoidable, it is generally more equitable and efficient to keep boards on the smaller side. They also recommend keeping the number and nature of formal officer positions on the board to a minimum; large numbers of formal offices tend to

become ineffective and ceremonial in nature. Offices should have clearly defined responsibilities and should not exist for their own sake; functions are more important than titles. Finally, they echo Chait et. al. in recommending a simplification of committee structure, and favoring working groups and ad-hoc committees over standing committees. They also helpfully divide committees into two main categories, which should be kept in mind when considering the function an existing or potential new committee does or would have:

- Policy committees: Small, problem-solving groups that can study important issues in depth and produce reports for the whole board with recommendations and supporting data
- Working committees: Policy implementation groups which either assist paid staff in carrying out tasks that staff cannot do alone, or are used instead of paid staff because none are available (Murray & Harrison, 2014).

As demonstrated by the previous concepts and examples, there are infinite ways for boards to structure themselves. The one universal rule is that form should always follow function when carefully considering the building blocks of the board.

Recommendations for the System Dynamics Society Policy Council

These recommendations are based on documented best practices taken in the context of System Dynamics Society, as well as the New York Nonprofit Revitalization Act of 2013. They pertain to both board structure and to board processes. Some recommendations can and should be enacted as soon as possible, and some will need to be developed over a longer period of time.

With that said, the following table summarizes all recommendations based on my findings:

Table 2

Recommendations based on findings

Recommendation	Reason
<i>Necessary reform based on legal requirements</i>	
Reform bylaws to separate board president and CEO Role, and formalize the CEO role as an employee of System Dynamics Society.	A provision of the New York Nonprofit Revitalization Act of 2013 prevents the chair or president of a board to also act as the CEO
<i>Recommended reform based on best practices</i>	
<ul style="list-style-type: none"> • Consider reducing the number of standing committees • Ensure standing committees are primarily responsible for strategy and policy-setting • When operational committees are needed, create time-bound ad-hoc committees that will disband when their purpose has been fulfilled • Ensure committee names accurately reflect their purpose 	There are many standing committees on the board with operational responsibilities, but few explicitly designated for strategy-setting and policy-making. Shifting from a primarily operational structure to a structure built from a strategy-centric perspective will facilitate both board and staff effectiveness by clarifying everyone's roles and avoiding redundancy. Additionally, some of the names of the committees do not accurately convey their purpose. For example, according to the policies, the "administrative committee" is primarily responsible for financial oversight, not administration of the home office. The "strategy committee" is responsible for promoting growth in the field of system dynamics, while its name suggests strategic planning for the organization. Committees should be simplified and streamlined and their names should accurately reflect their purpose.
Create position descriptions for policy council members and officers, as well as a process for keeping them up to date.	Current policy council members and officers are unclear about their responsibilities. Role clarity is essential to board effectiveness
Change the name of the "Policy Council" to the "Board of Directors"	This is in the spirit of clarifying roles and responsibilities, and makes the nature and legal obligations of the policy council clear to its members and to outsiders.
<i>Ongoing practices to adopt</i>	
Utilize communication technology to meet virtually more frequently. Specifically, conduct virtual meetings twice per year, in addition to the biennial in-person meetings, for a total of four policy council meetings.	More frequent virtual meetings would help keep everyone on the same page. The policies permit virtual meetings, but the policy council rarely meets as a group in this way. I recommend that the policy council take advantage of meeting in this way.
Engage in a formal self-assessment every two years through boardcheckup.com or other preferred survey method	Ensure relevance and effectiveness of board structures and processes.

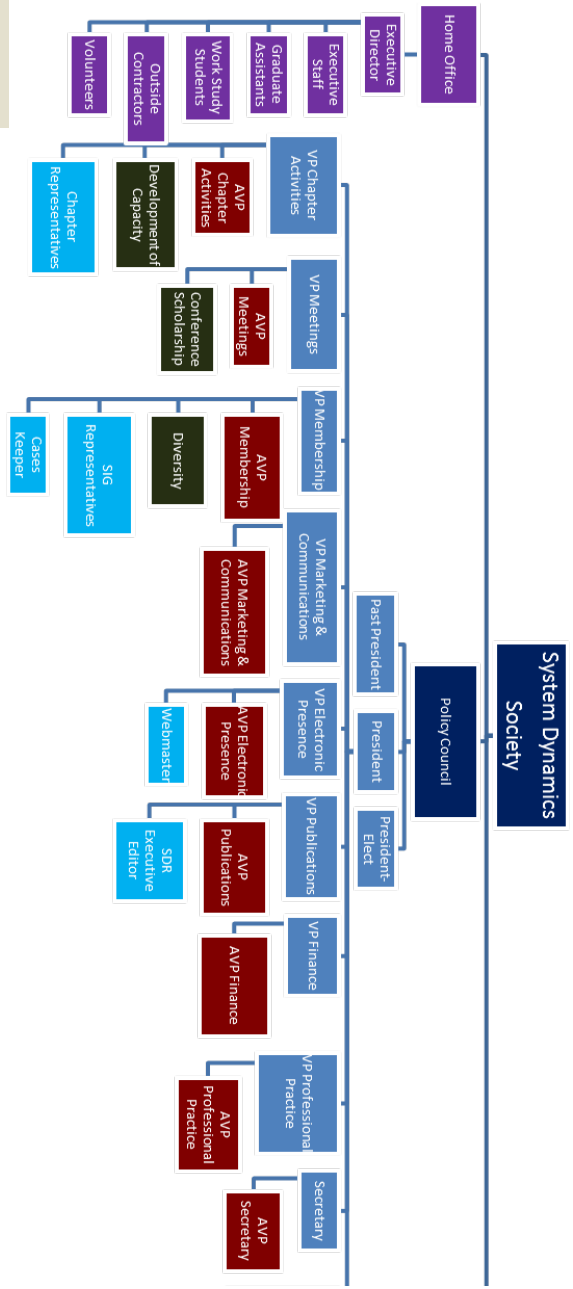
Conclusions

The System Dynamics Society Policy Council is an extremely able, intelligent, and committed group of people contributing to the advancement of the field of system dynamics. The Policy Council is made up of many highly invested members, and the fact that they are proactively working to self-assess and improve demonstrates their

commitment. If they invest the time and energy in building efficient and relevant board structures and processes, and are vigilant about maintaining and updating those processes regularly, they can focus their energy where they should and where they would like to: on advancing their field.

Appendix A: System Dynamics Society Organizational Chart

Legend
Policy Council Officers (Voting)
Associate Vice Presidents (Non-voting)
Appointed volunteers (Non-voting)
Standing Committees
Ad hoc committees
Home Office Staff
VP=Vice President
AVP=Assistant Vice



*Standing Committees: For further information regarding ex-officio and appointed members, please visit:
<http://www.systemdynamics.org/governance/standing-committees/>

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