

NGO Governance Health Programme

Executive Summary November 2022



Co-organised by:



Knowledge Partner:



公民社會與治理研究中心
CENTRE FOR CIVIL SOCIETY AND GOVERNANCE
香港大學 THE UNIVERSITY OF HONG KONG

NGO Governance Health Programme

Executive Summary

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November 2022

Important Notice

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1 Introduction

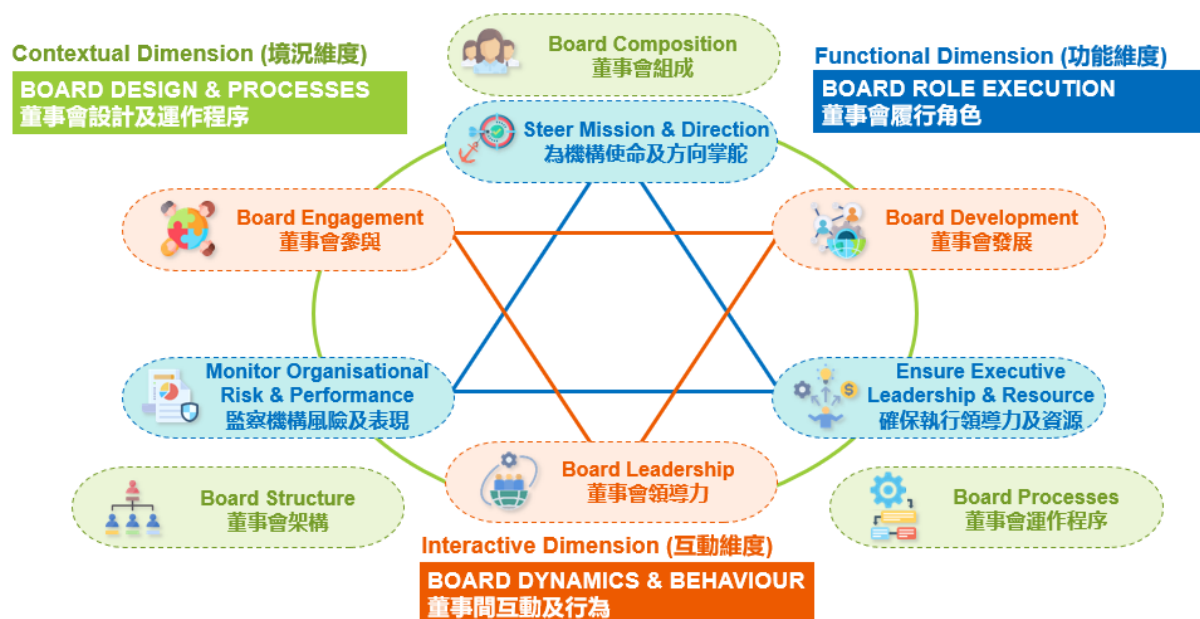
- 1.1 Non-governmental organisations (NGOs) play an important role in promoting the social development in Hong Kong. Ensuring good board governance means safeguarding against risks, better monitoring and assurance of performance to deliver their missions effectively and efficiently. In the NGO Governance Health Programme (the 2018 Programme), a Board Governance Health Study (the 2018 Study)¹ was conducted to study the governance health of NGOs in Hong Kong’s social service sector. Building upon the success and positive feedback of the 2018 Programme, The Hong Kong Council of Social Service (HKCSS) has partnered with Governance and Management Excellence (GAME) for Good Limited and the Centre for Civil Society and Governance, the University of Hong Kong (the Centre of HKU) to launch the 2021 Programme. The 2021 Programme consists of two main components: Board Governance Health Study (the 2021 Study) and Board Governance Health Enhancement Series.
- 1.2 The 2021 Study aims to offer a self-assessment tool for local NGOs to measure their board governance health, and to examine the strengths and areas for improvement in governance practices. It also provides comprehensive data analysis for the reference of the sector. Social Policy Research Limited (SPR) is commissioned to carry out the 2021 Study with the online platform provided by the Centre of HKU.

¹ The Hong Kong Council of Social Service, The University of Hong Kong & Governance and Management Excellence for Public Benefit (2019). *Hong Kong NGO Governance Health Survey 2018 – Landscape Report*. Retrieved from HKCSS NGO Governance Platform Project website: <https://governance.hkcss.org.hk/node/362>

2 Conceptual Framework

NGO Governance Good Practices

- 2.1 Good governance with a healthy and performing board is a key to the sustainability and growth of NGOs. After reviewing the international references² on NGO governance practices, a conceptual framework of NGO governance health is constructed to suit local context for setting institutional design and environment that the board is facing, the capacity to deliver core responsibilities of governance, and the dynamics of interaction that can be enablers or barriers to healthy board functioning. Governance health encompasses the attributes, qualities and actions that help sustain governance performance over time.
- 2.2 NGO governance health is measured by assessing the way the board of an organisation is “built”, the manners in which the board performs its vital functions, and the quality of interaction and behaviour in the board’s operation.
- 2.3 A framework which comprises three dimensions and nine elements of NGO Governance Health is shown in the diagram below:



² Adapted from *Nonprofit Governance Index*, BoardSource, 2012; *Survey on Board of Directors of Nonprofit Organizations*, Stanford Graduate of Business, BoardSource and Guidestar, 2015; *The Governance Wheel - A tool to measure and support change in your governance and leadership*, National Council for Voluntary Organizations, 2015; *Leading with Intent: A National Index of Nonprofit Board Practices*, BoardSource, 2017; *The Dynamic Board: Lessons from High-Performing Nonprofits*, McKinsey & Company; *Charity Governance Code*, Charity Governance Code Steering Group, 2017; *Survey on Board-level Recruitment and Retention Strategies among NGOs in Hong Kong*, HKCSS and ExCEL3, 2016; *Guide to Corporate Governance for Subvented Organizations*, Efficiency Unit, 2015; *Self-Assessment of Nonprofit Governing Boards Questionnaire*, Board Source, 1999.

- *Board Design & Processes*: The set up or “built” of a board defines the attributes and functioning mechanisms as reflected in board composition, structure and processes. In the dimension of board design and processes, three elements and five aspects with 12 good practices are constructed.
- *Board Role Execution*: The capacity of the board to deliver its vital functions or core governance responsibilities constitutes an essential dimension of governance health. In the dimension of board role execution, three elements and eight aspects with 24 good practices are constructed.
- *Board Dynamics & Behaviour*: People’s behaviour and the dynamics of their interaction constitute the governance culture, which critically affects the functioning of the board. In the dimension of board dynamics and behaviour, three elements and eight aspects with 22 good practices are identified.

2.4 The three dimensions are further divided into nine elements and 21 aspects, with a total of 57 good practices conducive to NGO governance health, as shown below:

3 Dimensions	Contextual Dimension (I) Board Design & Processes	Functional Dimension (II) Board Role Execution	Interactive Dimension (III) Board Dynamics & Behaviour
9 Elements	1. Board Composition	4. Steer Mission & Direction	7. Board Development
	2. Board Structure	5. Ensure Executive Leadership & Resource	8. Board Engagement
	3. Board Processes	6. Monitor Organisational Risk & Performance	9. Board Leadership
21 Aspects () = number of good practices in the aspect concerned 57 good practices in total	1.1 The Set-up (2) 1.2 The Team Mix (2)	4.1 Shape Mission & Vision (3) 4.2 Involve in Strategic Planning (3)	7.1 Recruitment (2) 7.2 Capacity Building (2) 7.3 Succession Planning (2)
	2.1 The Design (2) 2.2 Delegation & Delineation of Authority (2)	5.1 Support Top Tier Executive (3) 5.2 Ensure Adequate Financial Resource (3) 5.3 Provide Expertise & Access (2)	8.1 Positive Culture (4) 8.2 Foster Involvement and Commitment (4)
	3.1 Meeting Efficiency & Effectiveness (4)	6.1 Oversee Risk & Compliance (4) 6.2 Ensure Accountability to Stakeholders (2) 6.3 Monitor Performance (3)	9.1 Constructive Partnership with Management (3) 9.2 Monitor Board Performance (2) 9.3 Impact of Board Leadership (3)

- 2.5 Board members of the participating NGOs were asked to rate the degrees to which particular good practices are adopted in their organisations in a 5-point Likert scale, with “1” representing “never” and “5” representing “always”, or the level of agreement on whether a positive health status is reflected in their organisations, with “1” representing “strongly disagree” and “5” representing “strongly agree”. Further, the board members were asked to report the perceived relevance of particular good practices to their organisations in a 5-point Likert scale, with “1” representing “strongly disagree” and “5” representing “strongly agree”.

Board Governance Areas

- 2.6 To gauge the NGOs’ overall perception of their own governance health and performance, 11 areas of board governance are listed for the NGOs to indicate their levels of satisfaction and their views on the impact on the overall organisational performance in these areas.

- Commitment to Mission and Vision
- Direction and Leadership
- Providing Adequate Financial Resources and Oversight
- Ensuring Integrity, Ethics and Legal Compliance
- Monitoring Risks and Organisational Performance
- Supportive and Constructive Relationship between Board and Management
- Stakeholder Representation and Accountability
- Disclosure and Transparency to the Public
- Community Relations and Outreach Efforts
- Board Effectiveness
- Learning and Continuous Improvement

- 2.7 A self-assessment method was adopted. The board members were asked to indicate their levels of satisfaction in a 5-point Likert Scale, with “1” representing “very unsatisfied” and “5” representing “very satisfied”. Further, the board members were asked to indicate the perceived impact of these governance areas on the overall organisational performance in a 5-point Likert Scale, with “1” representing “very low” and “5” representing “very high”.

3 Methodology

Design

- 3.1 NGOs in Hong Kong are governed and steered by governing bodies such as Councils, Boards or Executive Committees. Board members work together to apply their knowledge, expertise and experience to lead and oversee the work of NGOs. As their governing role is embedded in relevant laws and regulations, they are legally accountable. In order to manage the day-to-day operation of NGOs, the board appoints an executive director (hereafter “agency head”).
- 3.2 The target respondents of the 2021 Study are:
- (i) Any charitable institutions or trusts of a public character, which are exempt from tax under section 88 of the Inland Revenue Ordinance; and
 - (ii) with governing bodies such as a Council, a Board or an Executive Committee
- 3.3 For each NGO which had agreed to participate in the 2021 Study, the agency head and three board members - including the board chairperson, one board officer bearer and one board member who had served on the board for more than one year - were invited to fill in the assessment tool.
- 3.4 Based on the constructed conceptual framework, two questionnaires - namely Form A and Form B - are designed. *Form A* consists of 23 questions concerning organisational information, and board composition and structure. The information in Form A is provided by agency heads. *Form B* consists of 68 questions gauging the degrees to which good practices are adopted, the perceived relevance of the practices to the organisations, and the levels of satisfaction of governance health aspects and impact on the organisational performance. The information in Form B is provided by agency heads and board members.
- 3.5 The 2021 Study was conducted in the period from August 2021 to February 2022. After recruitment and confirmation from 51 NGOs, 258 questionnaire invitations were sent to their agency heads and board members separately via an online platform. A total of 50 NGOs participated in the 2021 Study; from which a total of 215 valid completed assessments were received. The completion rate was 83.3%.

Table 3.1 Enumeration results

	No. of NGOs	No. of Assessments (Completion rate)
Questionnaire Invitation	51	258
Agency Head		51
Board Chairperson*		48
Board Member		159
Questionnaire Submission	50 (98.0%)	215 (83.3%)
Agency Head		50 (98.0%)
Board Chairperson		45 (93.8%)
Board Member		120 (75.5%)

Statistical Analysis and Limitations

- 3.6 A caveat is warranted that, due to rounding of numbers, some figures in the statistical analysis may not add up to a total of 100%. By the same token, the summation of percentages may exceed 100% since, for some questions, more than one answer was allowed to be selected. Amounts reported are all in Hong Kong dollars, unless specified otherwise. For the analyses, appropriate statistical tests were conducted, depending on the nature of the variables, and p-values were calculated to evaluate the statistical significance of the results, a p-value of less than .05 ($p < .05$) being considered statistically significant.
- 3.7 Non-response adjustments were made. The weight was 1 for each NGO. For each NGO, the weight for each agency head / board member who participated in the 2021 Study was the reciprocal of the total number of participating agency head and board members.
- 3.8 The statistical results of the 2021 Study are believed to be as accurate as practically possible, as our research team has implemented thorough data validation and processing procedures. The readers, however, are reminded of possible limitations of the 2021 Study, and our efforts to alleviate the impact of those limitations.

4 Profile of the Participating NGOs

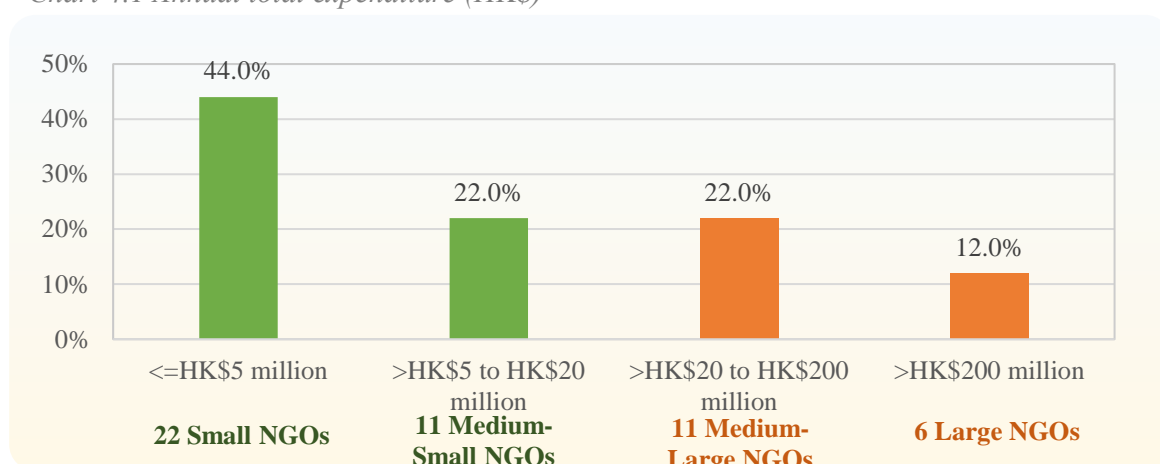
Organisational Information

4.1 The organisational information of the 50 participating NGOs is summarised as follows:

- *Annual Total Expenditure (HK\$)*

The 50 participating NGOs are divided into two major groups in accordance with the size of their annual total expenditure (HK\$) - those participating NGOs with an annual expenditure of less than or equal to HK\$20 million (66.0%), and those with an annual expenditure of more than HK\$20 million (34.0%).

Chart 4.1 Annual total expenditure (HK\$)



- *Legal Registration*

74.0% of the 50 participating NGOs were registered as companies limited by guarantee under the Companies Ordinance (Cap. 622). 12.0% were established under the Societies Ordinance (Cap. 151); 12.0% were established by other ordinances of Hong Kong; and 2.0% were charitable trusts.

- *Years of Legal Establishment*

The reported numbers of years of legal establishment varied across the participating NGOs; and the median was 17 years.

- *Organisational Function and Mission Scopes*

Service delivery, which includes the domains of social welfare, health, the environment, arts and recreation, and social enterprises, was considered by 78.0% of the 50 participating NGOs to be their primary organisational function.

34.0% of participating NGOs considered social welfare services the most important areas of their mission scopes, followed by education / research (16.0%) and social development / poverty alleviation / housing / relief (14.0%).

- *Funding Sources*

Among the participating NGOs with an annual total expenditure of less than or equal to HK\$20 million, the major funding source was non-recurrent funding³. 31 of the 33 NGOs received non-recurrent funding and the median percentage of non-recurrent funding out of the total funding was 90%. 26 of the 33 NGOs had earned income⁴ and the median percentage of earned income was 20.0% out of total funding. 3 of the 33 NGOs had recurrent funding⁵ and the median percentage of recurrent funding was 16.0%.

Among the participating NGOs with an annual total expenditure of more than HK\$20 million, 16 NGOs received non-recurrent funding and the median percentage of non-recurrent funding out of the total funding was 44.5%. 15 of the 17 NGOs had earned income and the median percentage of earned income was 15.0%. 13 of the 17 NGOs had recurrent funding and the median percentage of recurrent funding was 47.0%.

- *Perceived Life Cycle Stages*

Organisations move through predictable life cycle stages and developmental milestones. Including the early stage of idea inception (inspiration and incubation), the life cycle of NGOs comprises five stages⁶. Among those with an annual total expenditure of less than or equal to HK\$20 million, 45.5% perceived that they were in Stage 2 – Adolescent (Growing) and 33.3% in Stage 3 – Mature (Sustaining and Producing), 12.1% in Stage 4 – Renewal / Rejuvenation / Refocusing. Among the participating NGOs which have an annual total expenditure of more than HK\$20 million, 52.9% perceived that they were in Stage 3 – Mature (Sustaining and Producing), 29.4% in Stage 2 – Adolescent (Growing) and 17.6% in Stage 4 – Renewal / Rejuvenation / Refocusing.

- *Significant Issues Experienced in the Last 3 Years*

42 out of the 50 participating NGOs had experienced one or more of the listed significant issues in the last 3 years. The top five issues were “staff turnover by more than 20%” (45.2%), “change of staff size by more than 20%” (42.9%), “change of CEO” (42.9%), “change of Board Chair” (35.7%) and “change of budget by more than 20%” (31.0%).

- *Number of Full-time Staff*

The numbers of full-time staff varied across the 50 participating NGOs. The median number of full-time staff was 14 (7 for the participating NGOs with an annual total expenditure of less than or equal to HK\$20 million, and 99 for the

³ Non-recurrent funding includes non-recurrent project funding from government departments, Hong Kong Jockey Club (HKJC) / Community Chest (ComChest), and all kinds of non-recurrent subsidies or donations.

⁴ Earned income includes membership fees, service fees, sales income and income from endowment / investment.

⁵ Recurrent funding includes lump sum grant or recurrent funding from Social Welfare Department, other government departments or the ComChest but excludes non-recurrent project funding from government departments or the ComChest.

⁶ References: (1) Stevens, S. K. (2001). Nonprofit lifecycles: Stage-based wisdom for nonprofit capacity. Long Lake, MN: Stagewise and (2) Simon, Judith Sharken, and J. Terence Donovan. The Five Life Stages of Nonprofit Organizations: Where You Are, Where You're Going, and what to Expect When You Get There. Saint Paul, MN: Amherst H. Wilder Foundation, 2001.

participating NGOs with an annual total expenditure of more than HK\$20 million).

Board Composition and Structure

4.2 The board composition and structure of the 50 participating NGOs are summarised as follows:

○ Profile of Board Members

Of the 50 participating NGOs, there were in total 493 board members. The average number of board members was 10 (7 for the participating NGOs with an annual expenditure of less than or equal to HK\$20 million, and 15 for those with an annual expenditure of more than HK\$20 million).

About 14.4% of 493 board members were donors, 10.8% were volunteer or member representatives, 7.1% were service users or their carers and 6.5% were community leaders. About 30.0% of them were service-related professionals; 16.2% in the field of business and management; and 14.6% in the field of finance, investment, account and audit.

○ Board Meetings

The 50 participating NGOs had held an average of 5.3 board meetings in the previous year, which on average lasted for about 2.4 hours. The average attendance rate was 83.9%.

○ Terms of Board

Regarding the number of years per term, 26.0% of the participating NGOs reported that the length of term of their board chair was 1 year, 32.0% 2 years, 20.0% 3 years or above, and 22.0% indicated that there was no limit to the length of term. 22.0% of the participating NGOs indicated that the length of term of their office bearers was 1 year, 28.0% 2 years, 18.0% 3 years or above, and 32.0% indicated that there was no limit to the length of term. 18.0% of the participating NGOs reported that the length of term of their board members was 1 year, 22.0% 2 years, 28.0% 3 years or above, and 32.0% indicated that there was no limit to the length of term.

Regarding the maximum number of consecutive terms served, over two-thirds of the participating NGOs reported that there was no limit for board chair (66.0%), office bearers (70.0%) and other board members (78.0%).

○ Number of Committees

For the participating NGOs with an annual total expenditure of more than HK\$20 million, the median number of committees (including programme/service) was eight, and the median number of committees (excluding programme/service) was seven. For the participating NGOs with an annual total expenditure of less than or equal to HK\$20 million, the median number of committees (including programme/service) was two, and the median number of committees (excluding programme/service) was one.

5 NGO Governance Good Practices

The 10 Most Frequently Adopted Good Practices

- 5.1 Ranging from 85% to 92% of the participating NGOs *always or often* adopted the practices:
- All major policy and strategy discussions are in line with your organisation's mission and vision. (92%)
 - Board-management maintains a trustful relationship and constructive partnership. (92%)
 - All board members share a common understanding of your organisation's mission. (89%)
 - Board works with management to ensure timely and independent financial audit. (88%)
 - Board is able to resolve differences, build consensus and reach compromise in a positive way. (88%)
 - Policies on managing conflict of interest of Board / committee members are enforced. (88%)
 - Board members see the connection between what they do and the positive impact on the beneficiaries. (87%)
 - Board gives the top-tier management enough authority and responsibility to lead the staff and manage your organisation and is conscious to avoid micro-management. (86%)
 - Board understands regulatory and funding requirements to safeguard operation compliance. (85%)
 - Board works with the management to review financial statements regularly. (85%)

The 10 Least Frequently Adopted Good Practices

- 5.2 Ranging from 25% to 36% of the participating NGOs *seldom or never* adopted the practices:
- Succession planning is discussed and processes are in place to recruit and develop potential board leaders. (36%)
 - Board regularly assesses and gives feedback to all members to enhance their participation and contribution. (33%)
 - Continuous and collective learning opportunities are provided to board members. (32%)
 - Board reviews risk assessments compiled by management that acknowledges potential risks and approves mitigation plans. (30%)
 - Board members spend time together outside board meetings to know each other and enhance bonding. (29%)
 - Board works with management to set performance targets with reference to peer organisations. (29%)
 - Board has formal processes to recruit and nominate members with clear evaluative criteria. (28%)
 - Documented evaluation on top-tier management performance is done at least annually against pre-defined criteria and process. (25%)
 - There are conscious engagement efforts to enhance individual board members' understanding and participation. (25%)
 - Board conducts periodical assessment to evaluate and identify ways to improve its governance performance. (25%)

Level of Agreement on Perceived Relevance

- 5.3 In general, the participating NGOs perceived that the listed good practices were relevant to their organisations. Comparatively, the participating NGOs indicated a relatively lower relevance to NGO governance (% of agreement on perceived relevance less than 75%) in the following practices: working with management to set performance targets with reference to peer organisations by the board (64%), financial supporting or fundraising by board members to the organisations (68%), providing continuous and collective learning opportunities to board members (70%), assessing and giving feedback to all members to enhance their participation and contribution by the board regularly (73%), discussion and processes of succession planning to recruit and develop potential board leaders (73%) and having formal processes to recruit and nominate members with clear evaluative criteria by the board (73%).

Analysis of >80% of Perceived Relevance and >20% of Execution Gaps

- 5.4 The good practices with over 80% of agreement on perceived relevance and over 20% of execution gaps in the percentage of NGOs always and often adopting such good practices, as compared with the perceived relevance were identified. The results suggested that, even though some best practices were perceived to be of high relevance to the participating NGOs, they were not always or often adopted by the organisations. These practices concerned are in the aspects of NGO governance as follows:
- Shaping Mission and Vision - Update the organisation's mission and vision as necessary by the board
 - Supporting Top-tier Executive - Provide development opportunities for top-tier management according to their identified strengths and weaknesses
 - Monitoring Board Performance - Conduct periodical assessment to evaluate and identify ways to improve its governance performance
 - Capacity Building - Provide orientation for all new board members to understand the organisation's programmes, finances, governance responsibilities and introduction to their board colleagues
 - Overseeing Risk and Compliance - Review risk assessments compiled by management that acknowledges potential risks and approves mitigation plans
 - Board Team Mix - Have a systematic process for identifying the governance skills to lead your organisation)

Analysis by Elements and Aspects

- 5.5 The two elements that had the highest degrees of adoption of good practices were “Board Processes” (78.8%) and “Steer Mission & Direction” (71.7%).
- 5.6 Across the 21 aspects, the two that had the highest degrees of adoption of good practices were “Board Leadership – Constructive Partnership with Management” (86.8%) and “Board Processes – Meeting Efficiency & Effectiveness” (78.8%). The two aspects that had the lowest degrees of adoption were “Board Leadership – Monitor Board Performance” (36.4%) and “Board Development - Capacity building” (37.4%).

Analysis by Annual Total Expenditure

- 5.7 As compared to those with an annual total expenditure of less than or equal to HK\$20 million ($ps < .05$), significantly higher proportions of the participating NGOs with an annual total expenditure of more than HK\$20 million always or often adopted the good practices in the following aspects of NGO governance:
- Board Structure: Delegation and Delineation of Authority (75.2%)
 - Board Composition: The Set-up (71.2%)

- Ensure Executive Leadership & Resource: Provide Expertise and Access (78.9%) and Ensure Adequate Financial Resource (77.6%)
- Board Development: Recruitment (60.2%) and Capacity Building (48.2%)

5.8 On the other hand, significantly higher proportion of the participating NGOs with an annual total expenditure of less than or equal to HK\$20 million always or often adopted the good practice in positive board culture (73.3%), as compared to those with an annual total expenditure of more than HK\$20 million ($p < .05$). Please refer to the table below:

Table 5.1 Adoption of good practices analysed by annual total expenditure

	Annual expenditure		All NGOs
	<=HK\$20m	>HK\$20m	
Board Design & Processes ¹	63.6%	77.3%	68.3%
Board Composition ¹	58.9%	72.0%	63.4%
1.1 The Set-up ¹	55.1%	71.2%	60.6%
1.2 The Team Mix	62.7%	72.7%	66.1%
Board Structure ¹	56.2%	75.2%	62.7%
2.1 The Design	62.7%	75.1%	66.9%
2.2 Delegation & Delineation of Authority ¹	49.8%	75.2%	58.4%
Board Processes	75.7%	84.8%	78.8%
3.1 Meeting Efficiency & Effectiveness	75.7%	84.8%	78.8%
Board Role Execution	64.2%	72.0%	66.9%
Steer Mission & Direction	69.9%	75.2%	71.7%
4.1 Shape Mission & Vision	73.3%	76.5%	74.4%
4.2 Involve in Strategic Planning	66.4%	73.9%	69.0%
Ensure Executive Leadership & Resource ¹	59.4%	71.6%	63.5%
5.1 Support Top Tier Executive	49.7%	58.3%	52.6%
5.2 Ensure Adequate Financial Resource ¹	62.1%	77.6%	67.4%
5.3 Provide Expertise & Access ¹	66.3%	78.9%	70.6%
Monitor Organisational Risk & Performance	63.5%	69.2%	65.4%
6.1 Oversee Risk & Compliance	75.0%	79.4%	76.5%
6.2 Ensure Accountability to Stakeholders	58.1%	65.5%	60.6%
6.3 Monitor Performance	57.3%	62.8%	59.2%
Board Dynamics & Behaviour	57.4%	63.1%	59.3%
<i>Board Development ¹</i>	37.6%	53.0%	42.8%
7.1 Recruitment ¹	45.0%	60.2%	50.1%
7.2 Capacity Building ¹	31.8%	48.2%	37.4%
7.3 Succession Planning	36.0%	50.7%	41.0%
<i>Board Engagement</i>	68.6%	68.7%	68.6%
8.1 Positive Culture	73.3%	67.7%	71.4%
8.2 Foster Involvement & Commitment	63.9%	69.6%	65.9%
<i>Board Leadership</i>	65.9%	67.5%	66.4%
9.1 Constructive Partnership With Management	86.7%	86.9%	86.8%
9.2 Monitor Board Performance	34.9%	39.2%	36.4%
9.3 Impact of Board Leadership	76.1%	76.3%	76.2%
No. of participating NGOs	33	17	50

Note 1: Statistically significant differences were found among two groups of annual total expenditure ($p < .05$)

6 Board Governance Areas

Level of Satisfaction on the Board Governance Areas

- 6.1 More than three-quarters of the participating NGOs indicated satisfaction with their board governance in terms of “Ensuring Integrity, Ethics and Legal Compliance” (93.4%), “Commitment to Mission and Vision” (91.1%), “Supportive and Constructive Relationship between Board and Management” (89.6%), “Board Effectiveness” (82.2%), “Providing Adequate Financial Resources and Oversight” (81.0%), “Direction and Leadership” (77.8%), “Disclosure and Transparency to the Public” (76.9%) and “Monitoring Risks and Organisational Performance” (75.1%).
- 6.2 As compared to the participating NGOs with an annual total expenditure of less than or equal to HK\$20 million, those NGOs with an annual total expenditure of more than HK\$20 million were more satisfied with the areas of “Providing Adequate Financial Resources and Oversight” (92.4% vs 75.2%) and “Monitoring Risks and Organisational Performance” (84.1% vs 70.4%) ($ps < .05$).
- 6.3 Stakeholders Representation & Accountability and Community Relations & Outreach were the lowest satisfaction areas, with over 24% and 35% of the participating NGOs did not satisfy with the performance. The finding echoes the low adoption (66%) of good practices among board members acting as effective ambassadors for the organization, despite 90% deemed it to be important or very important.

Perceived Impact on the Overall Organisational Performance

- 6.4 More than threequarters of the participating NGOs indicated very high or high level of impact on their overall organisational performance in terms of “Supportive and Constructive Relationship between Board and Management” (94.8%), “Ensuring Integrity, Ethics and Legal Compliance” (94.5%), “Board Effectiveness” (89.9%), “Providing Adequate Financial Resources and Oversight” (89.2%), “Direction and Leadership” (87.5%), “Commitment to Mission and Vision” (86.9%), “Monitoring Risks and Organisational Performance” (85.1%), “Disclosure and Transparency to the Public” (78.0%) and “Community Relations and Outreach Efforts” (77.8%).

6.5

As compared to the participating NGOs with an annual total expenditure of less than or equal to HK\$20 million, higher proportions of those NGOs with an annual total expenditure of more than HK\$20 million indicated very high or high level of impact on their overall organisational performance in terms of “Ensuring Integrity, Ethics and Legal Compliance” (98.8% vs 92.2%), “Monitoring Risks and Organisational Performance” (93.6% vs 80.7%) and “Stakeholder Representation and Accountability” (84.3% vs 63.5%) ($ps < .05$).

Chart 6.1 Level of satisfaction (% of very satisfied and satisfied) and perceived impact (% of very high and high) on the overall organisational performance

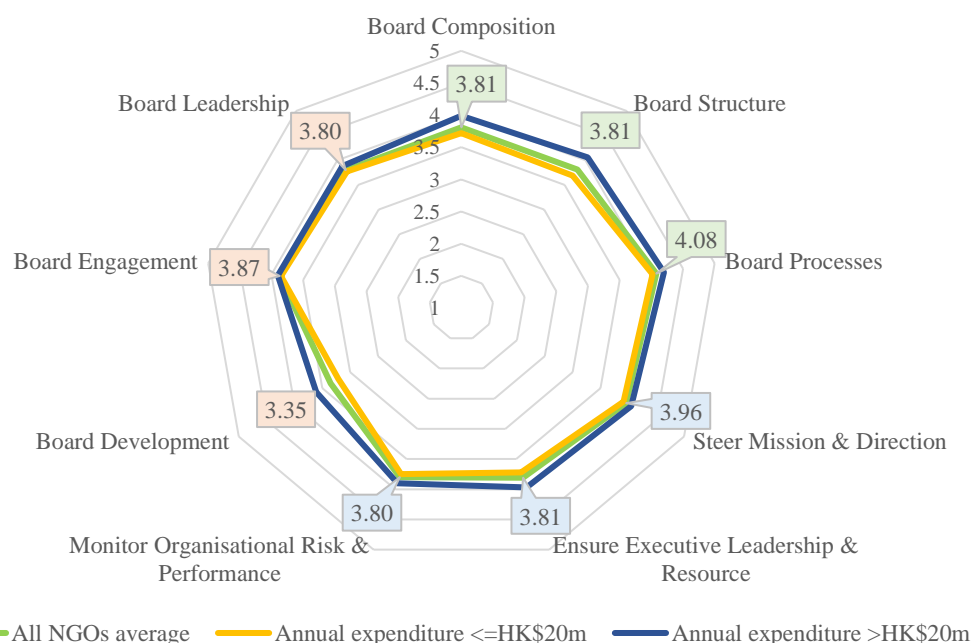


7 NGO Governance Health Index

Average Scores of NGO Governance Health Index

- 7.1 The average scores of the three dimensions, nine elements and 21 aspects were compiled. The index is the first step in the effort to construct a comprehensive tool for gauging NGO governance health. The average score of NGO Governance Health Index was 3.81 in a 5-point scale. The average scores of the nine elements ranged from 3.35 to 4.08, as shown in the diagram below:

Chart 7.1 NGO Governance Health Index



- 7.2 Of the nine elements, the two which adopted the good practices most frequently were “Board Processes” (4.08) and “Steer Mission & Direction” (3.96); and the three which adopted the good practices least frequently were “Board Development” (3.35), “Monitor Organisational Risk & Performance” (3.80) and “Board Leadership” (3.80).
- 7.3 Of the 21 aspects, the two which adopted the good practices most frequently were “Board Leadership - Constructive Partnership with Management” (4.16) and “Board Processes – Meeting Efficiency & Effectiveness” (4.08); and the two which adopted the good practices least frequently were “Board Development - Capacity Building” (3.26) and “Board Leadership – Monitor Board Performance” (3.26).

Average Scores of the Level of Satisfaction on the Board Governance Areas

- 7.4 The average scores of the level of satisfaction on the board governance areas were compiled in a 5-point Likert Scale, with “1” representing “very unsatisfied” and “5” representing “very satisfied”. Higher scores indicate higher level of satisfaction. The participating NGOs self-rated the highest level of satisfaction on the overall organisational performance in the governance area of “Ensuring Integrity, Ethics and Legal Compliance” (4.36) whereas the governance area of “Learning and Continuous Improvement” (3.54) was the lowest level of satisfaction.
- 7.5 In comparison with their counterparts with an annual expenditure of less than or equal to HK\$20 million, those participating NGOs with an annual expenditure of more than HK\$20 million were more satisfied with the areas of “Providing Adequate Financial Resources and Oversight” (4.33 vs 3.92) and “Monitoring Risks and Organisational Performance” (4.13) ($ps < .05$).

Table 7.2 Average scores of the level of satisfaction on the board governance areas analysed by annual total expenditure of NGOs

	Annual expenditure		All NGOs
	<=HK\$20m	>HK\$20m	
Commitment to Mission and Vision	4.22	4.31	4.25
Direction and Leadership	3.92	4.07	3.97
Providing Adequate Financial Resources and Oversight ¹	3.92	4.33	4.06
Ensuring Integrity, Ethics and Legal Compliance	4.31	4.46	4.36
Monitoring Risks and Organisational Performance ¹	3.81	4.13	3.92
Supportive and Constructive Relationship between Board and Management	4.23	4.32	4.26
Stakeholder Representation and Accountability	3.64	3.90	3.73
Disclosure and Transparency to the Public	3.93	4.10	3.99
Community Relations and Outreach Efforts	3.80	3.93	3.85
Board Effectiveness	3.94	4.10	3.99
Learning and Continuous Improvement	3.47	3.66	3.54
Overall Satisfaction	3.93	4.12	3.99
No. of participating NGOs	33	17	50

Note 1: Statistically significant differences were found among two groups of annual expenditure ($p < .05$)

8 Observations and Recommendations

Dimensional Observations

8.1 Key dimensional observations are summarised as follows:

<i>Board Design & Processes</i>
<i>Board Composition</i>
Board Composition, with an average score of 3.81, ranked middle among the nine elements. Only about half of the participating NGOs always or often adopted the good practice of having a systematic process for identifying the governance skills to lead the organisation, despite that over three quarters of the NGOs perceived the practice to be of relevance.
<i>Board Structure</i>
Board Structure, with an average score of 3.81, ranked middle among the nine elements. Slightly over half of the participating NGOs always or often adopted the good practices of reviewing the committee structure to enhance governance control and functions timely and using a mix of ad-hoc, advisory and standing committees to exercise different governance functions by the board, despite that over three quarters of the NGOs perceived these practices to be of relevance.
<i>Board Processes</i>
Board Processes, with an average score of 4.08, was the element with the highest average score among the nine elements. Over three quarters of the participating NGOs reported that they always or often adopted such good practices as well-planned meeting preparations, quality information, meaningful discussions on strategic issues and following-up on the implementation of the board's decision.
<i>Board Role Execution</i>
<i>Steer Mission & Direction</i>
Steer Mission and Direction, with an average score of 3.96, was the second highest average score among the nine elements. Over three quarters of the participating NGOs always or often adopted good international practices such as sharing a common understanding of the organisation's mission among board members; having major policy and strategy discussions in line with the organisation's mission; working with management to design and participate in the strategic planning process and to review strategic plan. Despite 84% of the participating NGOs perceived the practice of board in updating the organisation mission and vision as relevant, but only 42% of these NGOs always or often adopted this good practice (with an execution gap of 42%).
<i>Ensure Executive Leadership & Resource</i>
Ensure Executive Leadership & Resource, with an average score of 3.81, ranked middle among the nine elements. Though over two-thirds of the participating NGOs always or often adopted the good practices of working with the management to review financial statements regularly; providing expertise and external access proactively and supporting management in preparing and reviewing multi-year financial plan, less than half expressed that the board always or often provided

development opportunities for the top-tier management and the board members financially supported or fundraised for the organisations.

Monitor Organisational Risk & Performance

Monitor Organisation Risk and Performance, with an average score of 3.80, was the weakest link in the board role execution dimension.

Over 80% of the participating NGOs always or often adopted practices of working with management to ensure timely and independent financial audit, had policies on managing conflict of interest; understood regulatory and funding requirements of safeguard operation compliance and were aware of the strengths and weaknesses of major programmes and core services.

However, less than half of the participating NGOs always or often adopted the practices of “board reviews risk assessments compiled by management that acknowledges potential risks and approves mitigation plans” (44%) and “board works with management to set performance targets with reference to peer organisations” (37%).

Board Dynamics & Behaviour

Board Development

Board Development, with an average score of 3.35, was the lowest average score among the nine elements.

About one-third of the participating NGOs seldom or never adopted the good practices of discussion and processes of succession planning to recruit and develop potential board leaders, providing continuous and collective learning opportunities to board members and having formal processes to recruit and nominate members with clear evaluative criteria.

Capacity Building, with an average score of 3.26, was among the two lowest governance health aspects.

Board Engagement

Board Engagement, with an average score of 3.87, was the third highest average score among the nine elements.

Over 80% of the participating NGOs always or often resolved differences, built consensus and reached compromise in a positive way, noticed the connection between what they did and the positive impact on the beneficiaries among board members, and had a culture of trust, commitment, openness and transparency among board members.

Less than half of the participating NGOs adopted the good practices of spending time together outside board meetings to know each other and enhance bonding; and making conscious engagement efforts to enhance individual board members’ understanding and participation.

Board Leadership

Board Leadership, with an average score of 3.80, ranked middle among the nine elements.

Over 80% of the participating NGOs always or often maintained a trustful and constructive partnership with top-tier management and gave them enough authority and responsibility; had a shared understanding of the different roles and responsibilities of the board and management in governing and managing the organisation respectively and the current board leaders had necessary skills, enthusiasm, energy and time to provide leadership to the board.

About one-third of the participating NGOs adopted the practice of “board regularly assesses and gives feedback to all members to enhance their participation and contribution” (33%) and Monitor Board Performance scored lowest (3.26) among all aspects of governance health.

Overall Observations

8.2 Key observations are summarised as follows:

- Perceived Good Governance and Satisfied with Performance
The governance of the participating NGOs was generally in good health and the NGOs were also satisfied with their organisational performance.
- Larger NGOs Exhibited Better Health Governance Structure and Functions & Smaller NGOs Excelled in Engagement
Larger NGOs had better board structure in delegation and delineation of authority, better board composition in the set-up, more resources in providing expertise and access, and financial aspects, and better board development in recruitment and capacity building. Smaller NGOs had more positive board culture.
- The Perceived Strengths in Board Governance
The perceived strengths in governance were having constructive partnership with management, meeting efficiency and effectiveness, and overseeing risk and compliance.
- The Perceived Weaknesses in Board Governance
The perceived weaknesses in governance health were lack of monitoring in board performance, capacity building and succession planning.
- Execution Gaps in Governance Health
The top two biggest differences of governance health execution gaps were provision of continuous and collective learning opportunities to board members and updating the organisation's mission and vision as necessary by the board.

Recommendations

8.3 Aligning with the views collected from the participating NGOs and the analyses compiled, the research team suggests several strategies for various stakeholders including board members, staff of organisations, donors, beneficiaries, volunteers, policy makers, and the community at large to consider for better NGO governance in Hong Kong:

- Review and match board composition and structure with organisational development needs
- Update mission and vision, and ensure follow-up of strategic plan
- Support talent development and succession planning of top-tier executives
- Monitor organisational risk and performance
- Develop board recruitment and capacity building plans
- Develop and implement board succession planning
- Nurture a positive board culture, and foster involvement and commitment
- Monitor board performance regularly