
Interpreting Advanced Governance Diagnostics Results

**Guidance Notes Prepared by:
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Scoring for ‘Awareness’

Each question answer carries a score that indicates the awareness/formality of the approach, and your orientation towards that stakeholder group. This section deals with the scoring and interpretation of the questionnaire. Appendix A contains details on the theoretical underpinnings of the questionnaire, together with a complete list of the questions and the issues that went into their formation.

Awareness Scores in the Questionnaire

- 0 – Minimal or no awareness
- 1 – Minimal awareness and/or minimal operationalisation.
- 2 – Informal awareness, informally operationalised.
- 3 – Formally aware with partial or mixed operationalisation.
- 4 – Formally aware, formally operationalised.

The results are added together and banded as follows:

- 1. **Responsibility Avoidance:** 0 – 25 (average response between 0-1)
- 2. **Informal Approach:** 26 – 50 (average response between 1-2)
- 3. **Mixed Approach:** 51 – 75 (average response between 2-3)
- 4. **Formal Approach:** 76 – 100 (average response 3+)

All questions where the response was 0 or 1 indicate minimal awareness and can be added to meeting agendas for further discussion. Your analysis of ‘awareness’ starts on the next page.

Scoring for ‘Orientation’

To establish the ‘orientation’ scores, count the number of times that a respondent answers 0, 1, 2, 3 and 4 for all questions. Results are plotted onto a series of concentric circles:

- 1. Inner Circle: 0-2 responses
- 2. Second Inner Circle: 3-5 responses
- 3. Second Outer Circle: 6-8 responses
- 4. Outer Circle: 9+ responses

Orientation Scores in the Questionnaire

- 0 – No clear preference expressed.
- 1 – Authority is vested in one key individual (individualised / exclusive).
- 2 – Authority is vested in one group (collectivised / exclusive).
- 3 – Authority is negotiated by individuals (individualised / inclusive).
- 4 – Authority is negotiated by groups (collectivised / inclusive).

In working out the results, any answer with a 0 score is ignored. The results are drawn onto a diagram with quadrants labelled as follows:

Individualised / Exclusive: **Entrepreneurial (Authoritarian)**

Collectivised / Exclusive: **Elitist (Authoritarian)**

Individualised / Inclusive: **Co-operative Entrepreneurship (Democratic)**

Collectivised / Inclusive: **Stakeholder (Democratic)**

If you would like to do this analysis first, go to page 5.

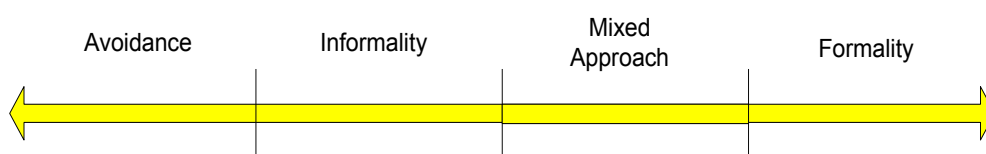


Understanding Your Awareness Results

The chart and text below indicate the levels of awareness and formality in your approach to governance. Results are classified in one of four ways:

- Avoidance (0 - 25)
- Informality (26 - 50)
- Mixed Approach (51 - 75)
- Formality (76+)

Your board / organisation has the following score for awareness and formality (write your score below the band that your score falls into):



Each level of awareness/formality is characterised on the following pages:

Avoidance (Minimal awareness and operationalisation)

Boards with this level of awareness and informality are likely to be unable to shoulder (or are positively avoiding) director-level responsibilities. There may be two reasons. Firstly, the organisation has been set up by a group of people with little experience of running organisations. Secondly, the organisation may be young and has not had sufficient time to develop governance concepts and practices. In the early stages of organisation development, an organisation may rely on one key individual or support professionals for advice and guidance. In these circumstances, a mentor can usefully work with board members to understand responsibilities so that informed choices can be made (without paying too often for third-party advice, or being over reliant on a CEO). Identify where you answered 0 or 1: you can use the appendix of question topics at the end of this document to build an action plan, or include items on the agenda of future governance meetings (board meetings).

Informality (Awareness and informality)

Boards with this level of awareness are considering issues for which they are responsible and are taking some action to address them. On balance, they use an informal approach either because formal procedures have not been developed, or they are side-stepping formal procedures that have been put in place. The approach indicates that there is a reliance on key individuals to sort out specific problems, or a commitment to mutuality and the strength of personal relationships to avoid formal approaches. In some cases, this may be an effective approach (in SMEs or small-medium sized co-operatives, for example) and, arguably, reduces the likelihood of conflict escalation and legal challenges. In larger organisations, informal approaches run greater risk of leaving the organisation vulnerable to legal claims. Depending on your size and age, consider reviewing the development of policies, or the extent to which existing policies are followed. You can work with stakeholders to institute communications systems and develop clearer policies and procedures, or new ways of applying them to practice.

Mixed (Awareness and mixed informal/formal procedures)

Boards / organisations with this level of awareness/formality are clearly addressing issues and considering them carefully. They are also developing an approach that is not over-reliant on either formal procedures or single individuals in discussion and implementation. A mixed approach shows an awareness of the dangers of becoming over bureaucratic as well as the need to debate and monitor board and executive performance. Any areas where awareness is possibly under-formalised or over-formalised can be identified by looking for answers that are either 0 or 4 in your results. In terms of identifying areas to develop, examine whether your answers are consistent across all areas of governance, or whether they vary with different stakeholders. If they vary, reflect on why different stakeholders are treated in different ways. Is this necessary and desirable? Is there a case for greater equity?

Formal (Awareness and formal procedures)

Boards with this level of awareness/formality not only pay close attention to their legal responsibilities, but have also invested substantially in the development of formal procedures. There are, however, some dangers from over-formalising the organisation's approach to governance. It may be bureaucratic and rule bound (rather than providing a framework within which people can be pragmatic and make effective decisions sensitive to context). In some cases, a more informal approach may yield time/money savings by precluding the need for formal processes which consume disproportionate amounts of time/effort, or which exacerbate rather than address social divisions. Look at your answers to see where the 4s predominate and reflect on whether a more informal approach might bring either performance or social benefits.

Suggested Areas for Further Action

Using Appendix A, list areas where you answered 0 or 4. You can consider prioritising these areas in board meetings in the future:

Conclusions on Awareness and Formality of Procedures

Depending on the size and constitution of the organisation, an informal, mixed or formal approach may be the most appropriate overall. For example, co-operatives often place a high value on mutuality in decision-making, and may institutionalise debate and mediation into disciplinary and grievance procedures. Other organisations may prefer strong line-management approaches, with formal reports, strong discipline and respect for authority combined with unambiguous policy documents. Whatever the formal legal requirement, each of these approaches may be effective in particular circumstances and the organisation's board/staff are the ultimate arbiters of what is most appropriate for the organisation.

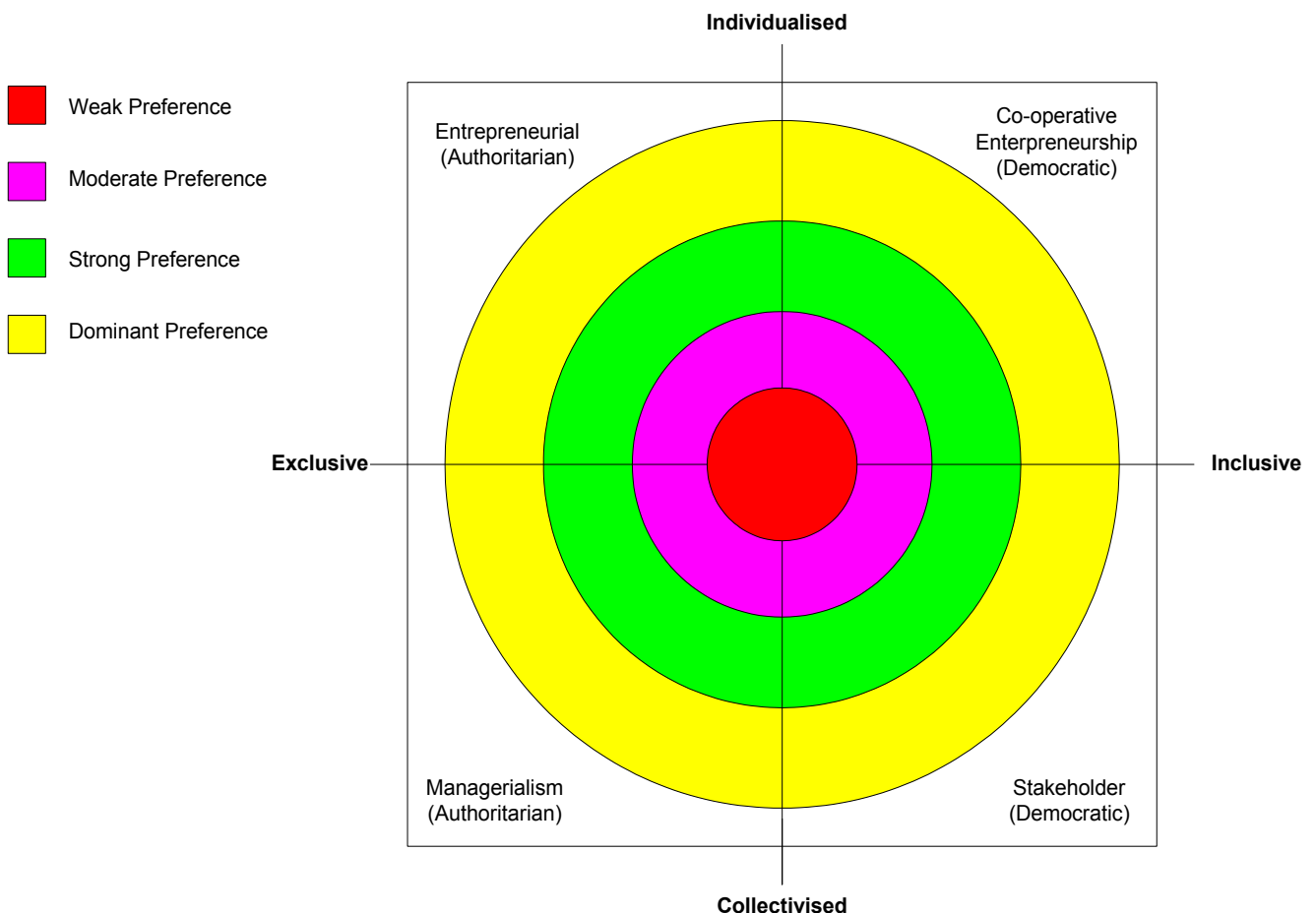
Understanding Your Orientation Results

There are a number of approaches that can be effective in different circumstances. You can map your orientation results on the chart below to understand the commitment of your board / organisation to each of the following problem-solving / power-based relationships:

- Individualised / Exclusive - *Entrepreneurial Authority (Authoritarian)*
- Collectivised / Exclusive - *Managerialist Authority (Authoritarian)*
- Individualised / Inclusive - *Co-operative Entrepreneurial Authority (Democratic)*
- Collectivised / Inclusive - *Stakeholder Authority (Democratic)*

Place a cross in each quadrant to reflect the number of times you chose each orientation:

1. Innermost Circle: 0-2 responses
2. Second Inner Circle: 3-5 responses
3. Second Outer Circle: 6-8 responses
4. Outer Circle: 9+ responses



Organisations may show a preference for different approaches in different circumstances (your score may vary in different sections of the questionnaire), or there may be a consistent clear preference. Each approach, its merits and problems, are discussed below:

Individual Entrepreneurship (Individualised / Exclusive)

Governance is dominated by a recognised leader to whom others defer and whose values dominate in decision-making, disputes and communications. Rules are created when the leader needs to resolve a dispute, or re-establish their authority. The leader allocates responsibilities (and adjudicates conflicts) or delegates the authority to a person they trust. The leader takes an entrepreneurial approach to decision-making, selects / appoints senior management to meet goals set, then runs the organisation on the assumption that they have control rights. Both entrepreneur-led enterprises (social and private) as well as charities established by a philanthropist or political activist can take on this character. One upside is fast efficient action that is targeted according the values/vision of the entrepreneur. A downside, however, is that the entrepreneur (or those they favour) may not adequately consider the needs or views of those outside their peer group.

Managerialist (Collectivised / Exclusive)

*Governance by a managerial elite who are able to create or impose a consensus. Rules reflect their shared values and they allocate responsibilities and adjudicate disputes according to their perception of collective interests (“the common good”). Elites sometimes take their authority for granted and entrench their right to make appointments and key decisions. Authority is based on educational or professional qualifications, ‘expert’ status in a particular field, and/or perceived social status (as indicated by formal/informal hierarchies). In addition, businesses started by families, work colleagues or closely knit social networks may develop in this way. Lastly, co-operatives and mutual societies with an **inactive** membership can start to adopt similar practices. One upside is the cohesion of the dominant group and the shared values that can lead to focussed and effective action. One downside, however, is that points of views held by non-professionals or those with low perceived social status can become marginalized or ignored, leading to oppressive cultures that resist change.*

Co-operative Entrepreneurship (Individualised / Inclusive)

Governance that encourages individual initiative and accommodates conflict through respect for individual rights and commitment to dialogue. Balance is achieved through democratic approaches to control based on individual action and devolved responsibilities. One-member / one-vote societies, associations, democratic businesses and co-operatives may show a preference for this approach (or profess commitment to it). Directors and executive officers may be elected by the membership rather than appointed by an elite. Overall, there is an emphasis on egalitarianism and individual action, rather than corporate control. One upside of this approach is the reported level of individual commitment and satisfaction amongst members and employees, leading to adaptability and innovation when change is needed. One downside, however, arises when trying to reach agreement with other organisations that want to negotiate with a ‘leader’ rather than a collective.

Stakeholder Democracy (Collectivised / Inclusive)

Governance that recognises group interests and promotes debate / discussion between stakeholders throughout the organisation. Conflict is accommodated through debate and negotiation rather than the imposition of rules and centralised controls. Social and economic challenges are met with a mixture of participation at team level and representative democracy at senior levels. Directors, managers and executive officers may (in some cases) be elected and removed by their groups rather than appointed / co-opted by board members. One upside of this approach is the acknowledgement and recognition of group interests as well as the responsiveness of senior staff to the needs of different stakeholders. One downside, however, may be the time it takes to reach consensus across the organisation as underlying group interests create additional challenges and conflicts.

Final Comment

Effective governance maintains a balance between appropriate learning, social cohesion (but not necessarily social harmony) and responsible lawful action. The dominant approach may change over time, or in response to the changed wishes of organisation members / leaders. Effective governance can be promoted by increasing the awareness of directors and organisation members regarding the merits and pitfalls of different approaches. Since World War II (1950s), after research demonstrating the value of participative approaches, command and control approaches to governance became less popular. In the 1970s/1980s, however, further research suggested that such approaches do not work well in all circumstances. With governance scandals (Maxwell, Marconi, Enron), there has been a reintroduction of command and control techniques.

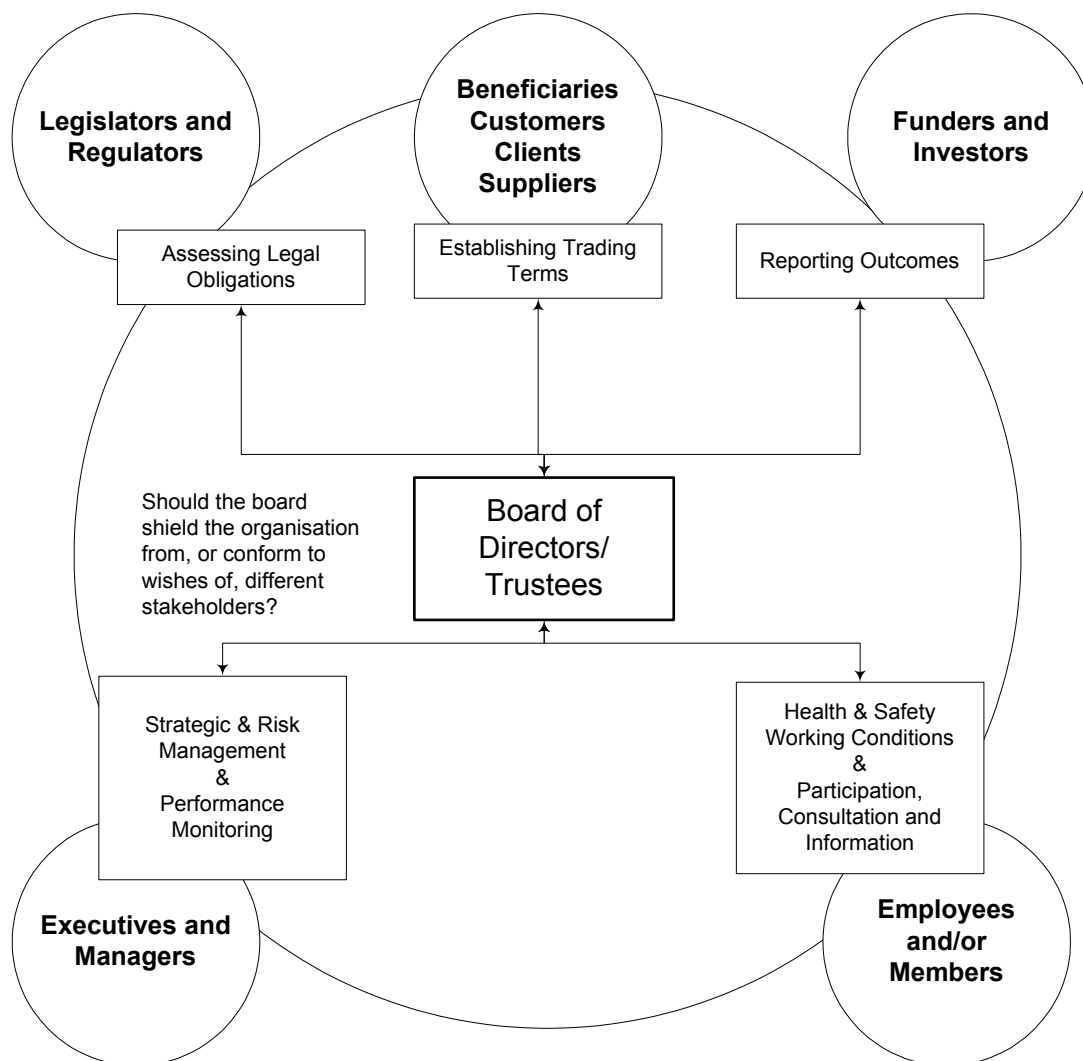
Choosing the most effective approach for a given situation is one of the skills that directors can develop. Rather than relying on a single approach, we recommend that you develop your understanding of the benefits and pitfalls of each approach so that you can make informed choices in every situation.

This questionnaire was initially devised by Dr Rory Ridley-Duff (Sheffield Hallam University) with input at the design stage from Mike Bull (Manchester Metropolitan University). The first phase of development was funded by a collaborative partnership between universities and enterprise support agencies led by St Martin College, Cumbria. The second phase of development has involved Tracey Coule and Christine Gilligan from Sheffield Hallam University and been funded by the Enterprise Centre at Sheffield Hallam University.



Appendix A – Developing the Questionnaire

This section provides more information on the how the questionnaire was designed and developed, as well as further information on each question. Based on PhD research into corporate governance, and in collaboration with Mike Bull (Centre for Enterprise, Manchester Metropolitan University) and Cherie Semper (Social Enterprise Business Coach for the North West), Rory developed the following model to identify stakeholders in an enterprise’s governance system.



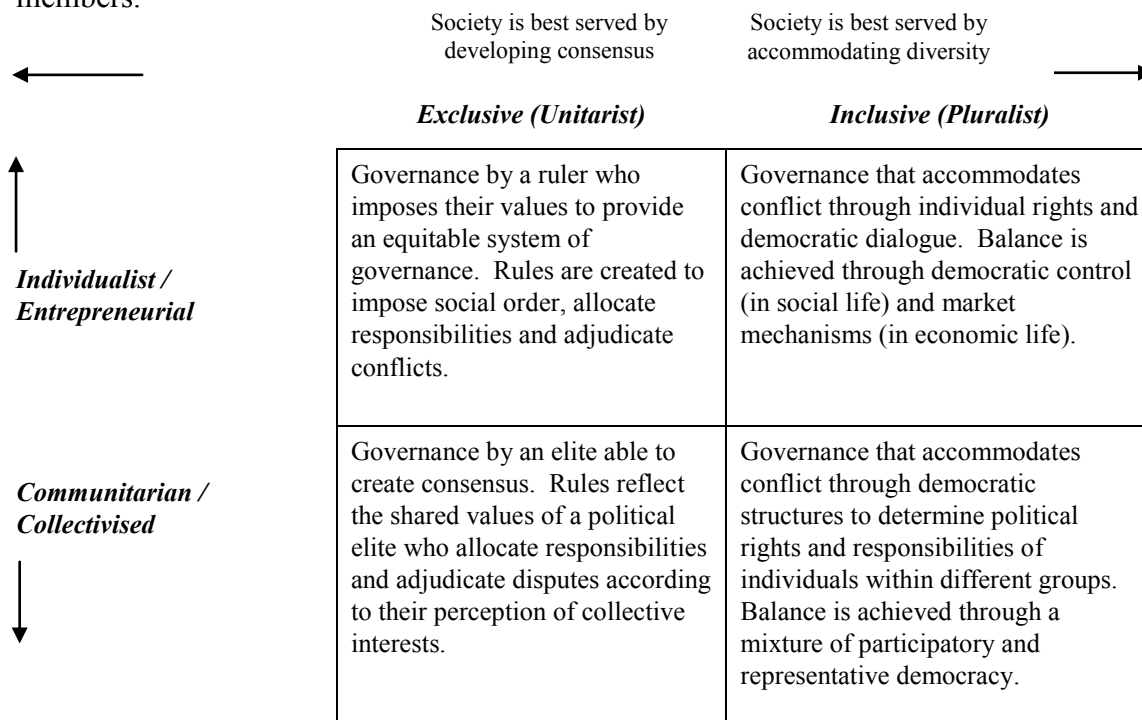
Key Themes

Exclusive or Inclusive Orientation: the consultants to the project recognised that there are both individual and collective approaches to entrepreneurship that seek to exclude or include different parties from decisions. The former (exclusivity) prioritises the judgement of some parties if there is a perceived conflict of interest. The assumption here is that some parties are better placed to make decisions on behalf of the organisation and protect its interests (and property rights). The latter (inclusivity) is grounded in a view that the board does not (or should not) have a privileged position in decision-making. Its role is to be responsive to the divergent and congruent interests of different stakeholder groups and broker solutions that ensure the viability of each stakeholder in the interests of the overall organisation.

Each series of questions involves four aspects that can reveal the assumptions of individuals involved in governance. To decide these themes, two researchers and a business support coach debated how differences in attitudes became apparent during consultancy and research projects. They settled on four areas of management activity where differences were most apparent:

- Decision-Making Practices
- Assessing Risks and Opportunities
- Dispute Resolution / Handling Different Perspectives
- Communication Strategies

By asking questions on each relationship to a stakeholder group, board members' views on governance would be revealed (albeit partially and imperfectly). By organising responses in terms of an existing theory of governance¹ it is possible to 'map' the attitudes of organisation members.



¹ Ridley-Duff, R. J. (2007) "[Communitarian Perspectives on Corporate Governance](#)", *Corporate Governance: An International Review*, Vol. 15 No 2, pp. 382-392

Awareness: The questionnaire asks four questions on each relationship (one each on decision-making practice, risks and opportunity management, handling differences and disputes, and strategies for communication). These explore the way the board interacts with *each* stakeholder group (including within itself). Each response is coded to both assess and develop awareness of the scope and nature of governance in a social economy enterprise.

In assessing awareness, there is also a focus on the level of formality (in the sense that the more there are formal processes in place, the higher the level of awareness). Previous research on organisation culture, however, has highlighted that there is both an informal and formal set of norms and that in most instances, informal norms prevail over the formal. The Weberian belief that bureaucracy could bring about social justice and fairness through standardisation of procedures has not held up over the long term as adherence to formal norms typically fail due to their inability to cope not only with the nuances of human behaviour and social life, but also because they are grounded in the highly contestable idea that rules can be 'value-free'.

While high levels of formality indicates awareness, it represents only a partial level of awareness (i.e. requirements of the public, rather than private domain of life). It does not follow that well established procedures will produce optimal governance outcomes if these conflict with informal (private) norms of behaviour. For this reason, the questionnaire seeks to elicit information about a range of informal/formal experiences.

On this basis, 24 scenarios were developed to test the level of informal and formal awareness in four types of management activity reflecting six different internal/external relationships that company directors and charity trustees are obliged to manage. These, in turn, are coded according to *awareness levels* and *social orientation* toward individuals and groups.

Themes	Decision-Making	Risks & Opportunities	Disputes and Difference	Communications
1. Regulation and Regulators	24 workplace scenarios based on the intersection of each vertical and horizontal theme.			
2. Stakeholder Management				
3. Funders and Investors				
4. Employees / Members / Volunteers				
5. Executives and Managers				
6. Developing the Board				