BUILDING BOARD INTELLIGENCE*

There is a tension inherent in many boards. While the governance role requires balance and wisdom that should accumulate over time, organisations are operating in a turbulent environment where the pace of change makes aspects of director's past learning less relevant.
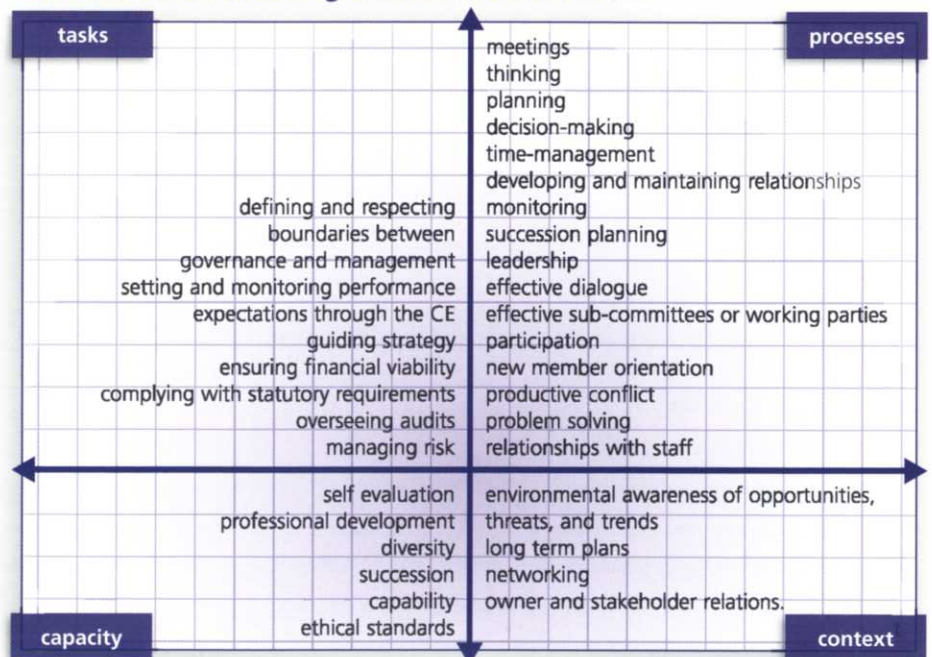
Peter Bruce

Boards are busy places. Over-full board agendas, a turbulent operating environment and distracted directors allow little time for reflecting on board effectiveness. Recent research identified four dimensions of effectiveness: tasks, processes, capacity and context. The boards studied generally discharge their tasks well and know their operating environment. What is not so good are their governance processes and their development focus. Attention to aspects of board process and capacity offers boards an antidote to irrelevance in the information age.

Task, process, capacity and context.

There is broad consensus on what constitutes governance tasks, for example guiding strategy, setting governance policy and managing the performance of the Chief Executive. Governance processes provide the means to achieve governance tasks, for example effective dialogue and decision making processes. Issues of capacity warrant separate consideration. While they may be tasks for boards, they can be regarded as maintenance tasks. They include self evaluation and succession. Contextual or environmental dimensions are those external threats or opportunities that boards must be mindful of. Examples are networking and stakeholder relations.

The four dimensions of governance effectiveness.

tasks		processes
	meetings	
	thinking	
	planning	
	decision-making	
	time-management	
	developing and maintaining relationships	
defining and respecting	monitoring	
boundaries between	succession planning	
governance and management	leadership	
setting and monitoring performance	effective dialogue	
expectations through the CE	effective sub-committees or working parties	
guiding strategy	participation	
ensuring financial viability	new member orientation	
complying with statutory requirements	productive conflict	
overseeing audits	problem solving	
managing risk	relationships with staff	
self evaluation	environmental awareness of opportunities,	
professional development	threats, and trends	
diversity	long term plans	
succession	networking	
capability	owner and stakeholder relations.	
capacity ethical standards		**context**

* This is the first publication from a research project *Governance Development in Northland*. The research is based on extensive interviews of senior board members of public sector and NFP Boards over a period of four months in 2005 from eight prominent Northland Boards.

Process

While tasks are specific (but not exclusive to) governance, processes are generic. For example, the task of guiding strategy requires thinking, planning and communicating skills. These process skills are required to execute other governance tasks. This distinction between task and process facilitates clearer analysis of development needs. Process skills often sit beneath the radar in governance. The work is so intense and time so tightly managed that reflecting on governance processes rarely happens.

A board comprises a number of members serving on the board to lend their expertise, and perhaps to represent another group of people. The quality of decision-making in boards will be determined by the quality of the relationships of the board members and their communication.

There are inherent dangers in board structures. Non-executive board members may only be exposed to the organisation through the board. Without the extensive knowledge of the organisation the executive has, they can tend to defer to executive judgement. An example is a board that meets six times annually. The first three hours are briefings (information dumps) by the executive. The second part of the meeting is one and a half hours long. This board has nine hours annually to add value to the organisation. How much of the nine hours is dominated by the executive? This board apparently rubber stamps executive decisions. What advantage is to be gained from this process? Why bother having a board?

The board drives the CE; the CE does not drive the board. The board drives the meeting agenda, not staff. Amassing reports about organisational performance and conscientiously listening to staff reports does not substitute for governance.

The governance process described above is more feudal than democratic.

> The key isn't structural, it's social. The most involved, diligent, value adding boards may or may not follow every recommendation in the good governance handbook. What distinguishes exemplary boards is that they are robust, effective social systems. **Jim Sonnefeld**[1]

Given Sonnefeld's assertions of board efficacy, it seems that the social processes of the board are fertile ground for those seeking to improve board effectiveness.

Building relationships – a key board process

The board collectively has a web of relationships to develop and maintain. The social capital generated by relatedness is perhaps more important than more tangible forms of capital. Solid relationships are based, among other things, on mutual respect. A solid foundation of mutual respect opens up opportunities to give productive feedback. In a less respectful climate, feedback is perceived as more threatening and the response will probably be defensive rather than receptive.

> At its heart, good governance is about strong relationships and shared understandings among people. Research shows that improvements in governance are most likely to come from sound social interactions and involvement in the right mix of people, skills, understandings, and attributes. **Meredith Edwards**[2]

The Hempel Committee on Corporate Governance[3] expresses a similar sentiment:

> People, teamwork, leadership, enterprise, experience and skills are what really produce prosperity. There is no single formula to weld these together, and it is dangerous to encourage the belief that rules and regulations about structure will deliver success.

Ideally there will be a trust and mutual respect between the board and the CE. The board needs to be confident the CE is open and honest with key information as the CE is usually the board's main window into the organisation. CEs will hopefully feel they have the support of the board.

A doctrinal adherence to the principle that the board drives the organisation through the CE will limit the board's intelligence. Effective boards will have relationships with other staff members and will seek information from diverse sources. The challenge for board members is to have relationships that enable dialogue without the board member directing staff in any way.

> Directors of boards that work expect to add value, and CEOs welcome the input. They are accountable to each other and in pursuit of the same goal - namely, to make the company perform better. **Ram Charan**[4]

Thinking

Peter Senge[5] asks how a team with individual IQs above 120 have a collective IQ of 63? How do bright individuals transform into a dumb team? Any board aspiring to add value will need to build collective board intelligence. This process is essentially a communication process. Contemporary models stress communication as a process of establishing shared meaning, transcending earlier models that define communication as sending and receiving messages. To be an effective communicator, and to contribute to building board intelligence, directors need to know themselves and to understand those they work with.

If a board that is learning and building its intelligence is a "learning board", its qualities can be contrasted with a "defensive board".

The Learning Board	The Defensive Board
• directors know themselves	• directors deflect feedback
• directors build relationships with others	• directors build cliques
• the board communicates in dialogue	• the board communicates in debate or monologue
• directors listen for understanding	• directors listen strategically
• the board reflects on performance	• the board assumes good performance
• there is openness around directors' strengths and weaknesses	• weaknesses remain unchallenged and strengths are unacknowledged
• there is a development orientation for individuals and the board	• there is no acknowledged need for board or individual development
• directors spend time together informally	• directors are too busy to build relationships – or focus on their clique

Building capacity

In addition to the tasks the board must execute and the processes it develops, the board's current capacity and its potential must be nurtured. Relevant factors are the composition of the board, ethical standards, succession and member and board appraisal.

In addition to the inclusion of non-executive directors, boards should be diverse. There is a perceived conflict between wider stakeholder representation and the provision of skill and knowledge. A guiding principle here is that the board should reflect the community it operates in. It is easy to dismiss this principle as "political correctness". Over 20 years ago Rosabeth Moss Kanter[6] identified the process whereby males, typically white males, tend to select people like themselves to populate the upper levels of the organisation. Kanter labelled this tendency "homosexual reproduction". This creates an environment where sycophancy thrives. By selecting people from similar demographics and backgrounds, the board is being deprived of wider intelligence. Bob Garret reports being told a number of times "that a US board of directors comprises 'ten friends of the Chief Executive, a woman, and a black'".

In choosing new members there is a false dichotomy that boards must seek either representation or skills. It must be possible to find skilled representatives. Requisite skills need to be clarified given the increasing weight of evidence that portrays effective councils as robust social systems.

The research identified succession as an issue of concern. Formal succession plans were almost non-existent. When the organisation is performing well and is supported by a strong culture it may be advantageous to appoint an existing staff member to be CE. The directors can mix with potential leaders both formally and socially to enable informed decisions to be made about their character and ability. Succession plans can coincide with the promotion of leadership through management development. A strong and competent chair supports effective governance. The board should have a succession plan for the chair.

While often board members are sought for skills that mirror the skills required by management, it is more important that board members are skilled in the requisites of governance. Ram Charan believes "the power of the board as a competitive weapon depends on the quality and diversity of the directors". Effective directors "ask incisive questions, constructively challenge management's assumptions, and express honest opinions".

Tools for board development
- board appraisals – self appraisals and/or externally facilitated
- a board development plan, including plans for individual directors
- a regular slot on the agenda for board development
- external coaching including meeting observation
- regular retreats providing extended time for dialogue

Wisdom or irrelevance?

Directors are often senior people. They have typically been successful in their careers. Ideally, with age, wisdom has developed and they make a great contribution. This is the best case scenario.

In the worst-case scenario, their learning becomes irrelevant. Their formative experiences happened in the industrial age and have become less relevant in the information age. The organisations they govern are populated by and service people that are generationally different. The generation gap has become a chasm. They regard themselves as finished products and their thinking is anchored in "their day".

The solution does not lie with discarding our seniors. For boards to add value, the key is for individual directors to skilfully reflect on their development needs and to commit to ongoing learning. Henry Mintzberg[7] identified the concept of the learning organisation as "both the biggest breakthrough in business and management thinking of the last few decades and is, most importantly, sustainable". To build board intelligence, directors individually and the board collectively must develop a culture of learning.
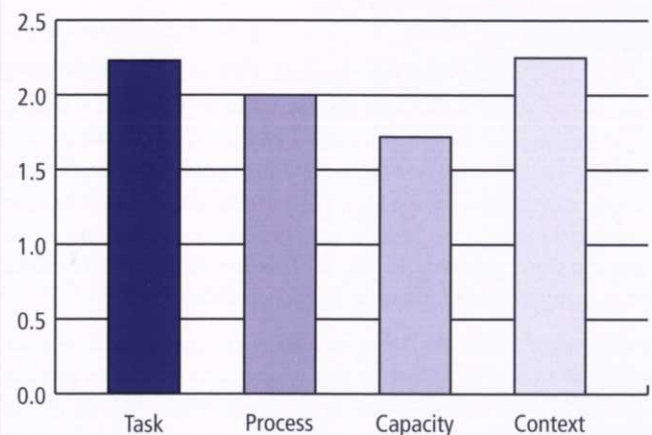
The research

To establish a useful development tool, elements of governance effectiveness were sorted into four dimensions:

- **tasks** – the essential work of the board
- **processes** – how the work is done
- **capacity** – how the board develops
- **context** – connection with the wider community

Members of prominent Northland boards were interviewed to gauge their responses to these dimensions. In some cases, directors sat on two or more boards. Many of the directors interviewed had extensive governance practice.

The data revealed that boards are strongest in the task and context dimensions. Aspects of process were weaker. Boards performed weakest in the capacity dimension.

Average scores for the four dimensions (scale range 0 to 3)

The research pointed to some clear strategies for governance development and presented a set of recommendations.

1. Develop an annual professional development plan for the board and for board members.

2. Use a range of tools to evaluate board performance.

3. Develop a succession plan, especially for the CE and chair.

4. Assess the impact of the maturation cycle of the board.

5. Include a professional development component on the "learning organisation".

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1 J. Sonnefeld, What Makes Great Boards Great, in Harvard Business Review, September 2002
2 Meredith Edwards is the Director of the Australian National Institute for Governance.
3 The Hempel Committee was set up by the UK Stock Exchange to review the Cadbury Report
4 Author of Boards at Work 1998, Jossey-Bass
5 Author of The Fifth Discipline and a leading exponent of organisational learning.
6 Author of Men and Women of the Corporation (1977).
7 Henry Mintzberg is an authority on strategy. See www.henrymintzberg.com.