How can you make your Board more effective?

Based on ongoing research we challenge the prevailing thinking around how a Board should function, and propose a powerful model for successful Boards.

Resonant Strategy

The concept of a Board as a static, oversight function is outdated

In an era where change was slow, a long-standing Board could function as an effective oversight mechanism. Organisations sought strategic stability while Board members had the time and attention to get to know each other and the organisations they supported.

To be effective a Board might have needed to meet monthly, receive its papers in advance, and have some quality hours to deliberate and advise on the few issues of strategic importance to its organisation. Knowledge was power and tenure brought both knowledge and intuition. A consensual environment meant that the Board's solutions were well supported and more likely to be successful.

Anyone who sits on a Board will now tell you that the old model is outdated. Board members today must accept an exponential rise in information and a bewildering pace of change as normal. A highly-tenured Board may be out of date with new sources of business value and models of collaboration. A highly consensual Board is more likely to indicate a lack of understanding of the key strategic issues to be debated – or a lack of willingness to debate them. Genuine, pervasive oversight of anything but the smallest of organisations is near impossible to achieve.

> There was created within the Board what we styled a 'culture of accommodation'. The Board frequently approved billion dollar deals with little or no information or discussion […] regarding the terms and conditions or implications of the transaction.

Dick Thornburgh, Counsel, Kirkpatrcik & Lockhart LLP and Former US Attorney General, Court appointment examiner in Worldcom bankruptcy Court-appointed examiner in WorldCom Bankruptcy Proceedings

So how can a Board be effective in a complicated, changing, distracted, information-rich, global world?

Effective Boards today operate with the people, information and culture to proactively drive selected changes that **add** value

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The move from a broad oversight mindset to a specific change-driving mindset is subtle but critical.

An oversight mindset seeks broad overview information, only going into depth when a risk or unmet opportunity is sensed. Yet today's reality is that it's impossible for Boards to obtain or assimilate the full breadth of information needed for a comprehensive overview of the organisation they support.

A proactive, change-driving mindset eschews broad data for *specific, focused information* which will allow it to gauge both *when to intervene* and *how best to intervene* in an organisation's trajectory.

> **❝** The whole point of being on a Board is to **add** value to an organization. That means you've got to be asking yourself, what change will I drive that adds value to this year? **❞**
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> Resonant Strategy interview:
> Thomas Gudman, Executive, Microsoft

When to intervene

After a long economic downturn it's not unusual to find business leaders overstretched and overstressed. Recessions play havoc with sensible hiring, training and growth investment, often resulting in inappropriately staffed management teams and low employee morale. So for a Board to achieve its goal of adding value through a few highly effective changes, it's critical to know when to make a Board intervention. A change needs to be precipitated at the right point in the lifecycle of an issue, when the issue has matured enough to warrant Board attention, but early enough that its trajectory can still be altered.

To know when to intervene in an issue, a Board needs to be able to intuit the real risks and unmet opportunities inherent in the work of the organisation. It needs to be able to use its collective strength of judgment to surmise where key decisions – or indecision - might lead. And it needs to have goal congruence amongst the Board and executive team – a shared aspiration for the organisation, whilst being open to debate on the mechanisms for achieving the goals.

> **❝** We had the right metrics combined with an interventionist style. We intervened aggressively and in a fairly unstructured way. I think a Board can only have some oversight if it samples random interventions, which give it a huge amount of information on what's really going on. **❞**
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> Resonant Strategy interview: James Hall
> Former Managing Partner of Accenture UK
> Former CEO of UK Identity and Passport Service

How best to intervene

To understand how best to intervene, a Board must know where the issue lies on the intervention spectrum – is the Board intervening during the Prevention stage, the Treatment stage or the Crisis Management stage?

Each stage requires a different type of challenge and support from the Board, including:
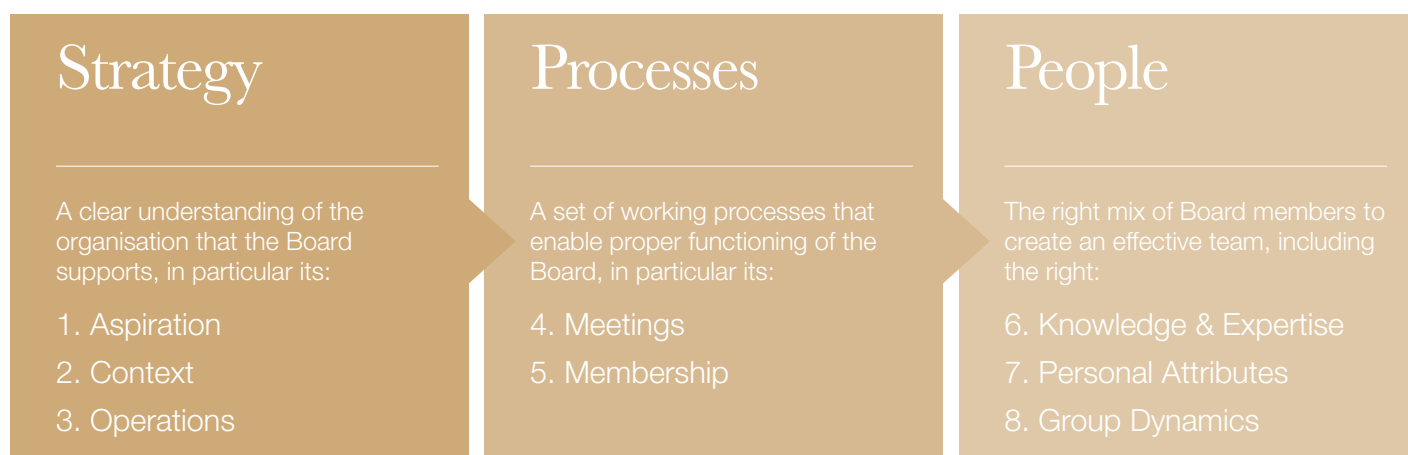
- How to ensure a collective understanding of the key problem and its likely trajectory
- How to harness enough collective support for change
- How to engage the executive and management in a constructive way
- How to obtain the sustainable changes in the organisation needed to support a new trajectory

Successful organisations tend to have Boards that get eight things right

Our research evaluated the key characteristics of Boards of companies that have both failed and succeeded[1]. Based on this we have devised a model that encapsulates the eight critical characteristics of an effective Board, which allows them the ability to make successful interventions and changes in the business:

Our research shows that successful organisations tend to have Boards with eight characteristics.

Strategy

A clear understanding of the organisation that the Board supports, in particular its:

1. Aspiration
2. Context
3. Operations

Processes

A set of working processes that enable proper functioning of the Board, in particular its:

4. Meetings
5. Membership

People

The right mix of Board members to create an effective team, including the right:

6. Knowledge & Expertise
7. Personal Attributes
8. Group Dynamics

The organisational successes we studied had Boards that did each of these eight things relatively well, and had particular strengths in a few areas. The organisational failures we studied all had Boards with known weaknesses in one or more of these eight areas.

In a startling 73% of cases studied, failure occurred with three or fewer areas of known Board weakness. Each of the eight factors was represented in this group, suggesting that these eight identified factors are all highly correlated with both success and failure, either as direct causal factors or as symptoms of success or failure.

Number of weak factors associated with organisational failure

Note

1 Company failure case studies were selected on the basis of either a bankruptcy or a stock price decrease that led to a formal investigation. Company success case studies were selected as a substantive period of time (taken as greater than 36 months) in an organisation's history with a significant and measurable success metric (such as an increase in profitable growth).

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Strategy

An effective Board has a clear understanding of the organisation strategy that it supports. While this could potentially encompass a huge number of things, our research shows that the three critical elements of strategy that a Board must understand are the organisation's aspiration, its context, and its operations.

Interestingly, 20% of the company failures we studied were associated with weakness in Strategy factors alone (i.e. Boards with discernible weakness in Strategy factors whilst displaying generally sound Process and People factors). This contrasts with the Process and People areas, where we found no instances of company failure that were associated solely with either Process or People factors. This suggests that the strategic competence of a Board may be the most significant factor in its success.

> ❝ *Sears has been good at coming out with a lot of reasonably innovative programs, but they still don't answer the question: 'What's the overall strategy for the brand?' The truth, former Sears executives say, is no one knows.* ❞

Mina Kimes, Bloomberg investigation and Steven Dennis, Former Sears VP

1. *Aspiration* (Features in c.49% of failures)

An effective Board understands the core aspiration of the organisation it supports. Are the organisation's goals well considered? Is there a good balance between achievable and stretch goals? Will stakeholders consider achieving this vision a success in five years? In ten years? Our research suggests the key lies in having an emotionally shared goal ("we had a very high level of consensus around what was really a visceral aspiration") over simply having a written document ("We had one but I couldn't tell you today what was in it").

> ❝ *We had a palpable sense of purpose that was very closely understood; it was so strong we were almost cavalier about overriding obstacles. It wasn't about the written documents.* ❞

Resonant Strategy interview: Liam Mullaney, Former CEO of Sage Ireland

2. *Context* (Features in c.25% of failures)

Our research suggests that strong Boards have a genuine understanding of the important elements of the context in which the company operates. Depending on the organisation this might include its competitive landscape, the political and regulatory picture, and the critical market dynamics and trends. Who are its main competitors, and how does the company position itself in the market against the competition? Are there any pertinent political and regulatory movements that require tracking and management? What are the key market and economic trends that the organisations is riding, or battling? Having a clear appreciation across the Board of the key winds that the organisation is battling, or riding, is a core characteristic of strong Boards.

3. *Operations* (Features in c.30% of failures)

It's impossible to have a full operational picture of anything but the smallest organisation. What's critical is to have a profile of how the company organises itself for business, its key operational metrics and its important everyday business risks. Selecting the right KPIs to focus on at Board level is critical, and should be selected based on the aspiration and context of the business.

> ❝ *The Board was driven by its private equity investors, who fixated on yield as their only real metric of interest. It just wasn't appropriate to the business, and they missed the real business and strategic changes leading to a 25% decrease in share price.* ❞

Resonant Strategy interview: Former Non-Executive Director, private equity backed company

Processes

An effective Board maintains a sensible set of light-touch working processes that enable proper functioning of the Board. Our research shows that strong Boards tend to avoid falling into the trap of over-bureaucratic processes, and focus instead on how they conduct meetings and how they manage Board membership.

4. Meetings *(Features in c.28% of failures)*

Good Board meetings tend to have six characteristics:

- An agreed and documented mandate that covers essentials around roles and responsibilities
- A working structure that delegates work and accountability to the right sub-structures
- An agenda that reflects a balance between business-as-usual and strategic priorities
- Board papers that are informative, secure, and written for the right audience
- Board minutes that cover the right amount of detail
- Board communications, both internally and externally, that allow the right issues to be surfaced

> [Boardroom agendas] tended to be formulaic and procedural in nature, bringing forward items of concern to management but little from outside that source.
>
> HIH Royal Commission Hon Justice Owen, commenting on the circumstances leading to bankruptcy of HIH

A key principle that emerged in our interviews is that "the Board only does what only the Board can do". Delineating the responsibilities of the Board and executive is key, as is an understanding of when a meeting is effective and when it is simply following procedure without value.

Our view, based on our research, is that the most important characteristic of a good Board meeting is that the right issues are surfaced and debated well. Everything else in this area - papers, minutes, agenda etc. - is simply an enabler of this key to a successful Board meeting. As one executive put it, "If the key issues are not getting raised, you must ask questions about the integrity or capability of the people involved."

> In hindsight, had our Board been more humble and more involved in succession planning, we could have avoided [event]. You need a constant sense of renewal on the Board.
>
> Resonant Strategy interview: Chairman of national charity

5. Membership *(Features in c.61% of failures)*

To our surprise, the most frequent factor associated with organisational failure in our study was having a poor membership process for the Board. Poorly managed criteria and procedures for hiring, induction, training and removal of Board members played a part in over 50% of the failures studied, and figured prominently in our personal interviews. This factor is intricately linked with the following section on "People", and represents the will and ability to make critical changes in the Board mix, to maintain what several interviewees termed "a constant sense of renewal".

Frequency of Factors Associated with Board Failures
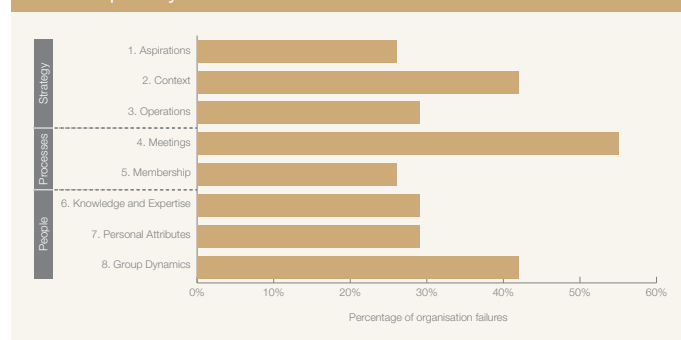
> Company reinvention HAS to happen on a regular basis, at least every three years.
>
> Resonant Strategy interview: Liam Mullaney, Former CEO of Sage Ireland

People

An effective Board must have the right mix of members to create a strong team. Our research shows that there are three critical factors related to the people on Boards: their combined knowledge and expertise, the strength of each member's personal attributes, and the tenor of the group dynamics across the Board.

6. *Knowledge and Expertise*
   (Features in c.24% of failures)

The combined knowledge and expertise of the Board should cover an optimal mix of both industry experience and functional expertise required to support the needs of the organisation. A common mistake made in hiring is the selection of Board members predominantly from the same industry as the organisation. Our research suggests that the critical point here relates to the diversity of opinion and experience on the Board, which comes from having a generous mix of backgrounds, personalities, skills and life experiences.

7. *Personal Attributes* *(Features in c.44% of failures)*

Board members need to embody a set of personal characteristics that is easy to describe but relatively difficult to find in practice. Our research highlights four critical attributes:

- Strong business judgment from having faced a range of challenges themselves
- The ability to understand the organisation at a deep strategic level
- The independence, courage, and integrity to raise the important issues
- A challenging but thoughtful and supportive style, so they can "speak the truth" in a way that is likely to build understanding and desire for change

> The key as a Board member is to know the issues that are really important, and be willing to speak the truth on that small number of key issues. Unfortunately too many people select Board members because they believe their views to be aligned.

Resonant Strategy interview: James Hall, Former Managing Partner of Accenture UK. Former CEO of UK Identity and Passport Service

8. *Group Dynamics* *(Features in c.37% of failures)*

The group dynamic within the Boardroom is a function of both cultural and personal factors. Do Board members feel they have a valuable role and are able to make their contribution? Do the Chairman and CEO encourage engagement from all members? Do all Board members engage in a range of tasks and maintenance functions in a healthy manner? Are there factions of power and isolation within the membership?

> The role of the chair is critical; the chair sets the tone and must allow opportunities for people to speak up.

Resonant Strategy interview: Liam Mullaney, Former CEO Sage Ireland

This is again an area where we see Boards frequently turn to specialist external support, in particular from HR, organisational behaviour or psychometric experts. Our research suggests successful Boards can accommodate a variety of group dynamics from balanced to even feudal. However once again the key appears to lie in encouraging a social dynamic that allows for the right issues to be raised and the right decisions to be progressed, which allow the right interventions to be made in the organisation to add value.

So what can you do to make your Board more effective?

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In conducting this study we asked ourselves how much we could really hold a Board to account for the success or failure of the organisation that it supports. Can a dysfunctional Board sour a good organisation? Can a good Board save a poorly performing organisation?

> " A Board can be a handbrake or an accelerator for the company it supports. "
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> Resonant Strategy interview: Senior Executive, Microsoft

From our research we see a high correlation between Boards that are strong in all eight factors identified, and organisations that are hugely successful. Conversely we also see a high correlation between organisational failure and Boards that fail in one or more of the factors identified. In our research, every organisational failure was accompanied by one or more weaknesses on the Board. *This suggests that it's important for a Board to work on any identified weaknesses in all three areas of Strategy, Processes and People.* In the face of known Board weaknesses, complacency or the "do nothing" approach is less and less an acceptable option.

We also see that the eight factors are not equally weighted, or equally causal in nature. Whilst there is often market attention on the Board's working processes and group dynamics, there is a general lack of understanding around how to make a Board "more strategic".

Yet it's the strategic function of a Board that appears to be the most critical factor in determining its success as an effective intervention body, and its ability to prevent a company from failure. *What this means is that if a Board is weak on the Strategic factors discussed, complacency could be lethal.* The reality is that with limited time and resources to address questions of Board level effectiveness, our view is that Boards should prioritise improvements in their strategic competence.

So as a senior leader what could you do next? Here are a few ideas.

✓ **Conduct a formal Board review** The UK Corporate Governance Code requires "Evaluation of the board of FTSE 350 companies should be externally facilitated at least every three years. The external facilitator should be identified in the annual report and a statement made as to whether they have any other connection with the company." If you have a Board review requirement coming up, consider taking a strategic perspective on your Board's effectiveness rather than an audit or HR view.

✓ **Conduct a short Board healthcheck** against the eight factors for success. Use the results to determine a course of action on making your Board more effective.

✓ **Commission a strategic stocktake**, covering the views of your Board, selected executives and key stakeholders. This will give you a fresh perspective on your key areas of strategic weakness. In our experience this can be one of the most powerful mechanisms for positive engagement and change.

✓ Have your Board members been through an induction or training programme lately? Could someone in the management team **organise a series of Board training events** during or after your regular Board meetings?

✓ **"What one change?"** One of our services is to work with Boards and top teams to identify and build alignment around one important change they will make that year. Then we hold them to it!

Resonant Strategy

Resonant Strategy is an independent, niche consultancy based in London. We help Boards, business leaders and management teams become more effective by focusing on the issues that really matter. We are passionate, collaborative problem-solvers who rethink complexity to find the simple, practical, sustainable and resonant solutions.

Resonant Strategy

For more information:

t Call Radhika on 0779 603 2940

e info@resonant-strategy.com

w www.resonant-strategy.com