

Board Level Effectiveness

- Understanding Best Organization Practice -

A well-functioning Board is a vital structural element of any organisation, helping to ensure long-term sustainability. A historical analogy was that Boards were like fire departments. They weren't needed every day, but had to perform effectively when a crisis occurred. This passive view of the Board is giving way to a much more active role where Boards support the executive team in co-developing *organisation strategy*. The Board also helps to assess *risk*, through the establishment and maintenance of solid governance routines. The current trend is that Boards are becoming *more* involved in organisations.

2+2=5: In best practice organisations, the Board and the Executive team form a synergistic partnership. That's the way it should be. However, in practice, the effectiveness of organization Boards ranges along a continuum from brilliant to almost useless. The most common tensions that arise are outlined below:

#1. Role Confusion: Effective organisations have a clear, unambiguous mission. In addition to helping develop this, the Board needs to communicate a confidence that the senior management have the authority and ability to implement this. The usual 'split' between roles is that *Strategy & Policy Development* is a combined responsibility (Board & the CEO) while *Policy Implementation* is an executive function. In reality, the Board Management relationship is often quite power-sensitive. Some Boards over shift in the direction of 'running' the organisation while others delegate too much authority to the executive team. The relationship with the CEO and the executive team is critical here. Ideally, power should not be seen as a zero-sum game. The Board and CEO need to work together to maximise available resources with the CEO understanding that asking for help is not a sign of weakness.

Issues: A common presenting issue is a clash between the Chairperson and the CEO around role definition. Many Chairs are current or former senior executives and it can be difficult to switch to a more *facilitative* role. This 'fault line' tension can occur between the entire board and the executive team. If the Board role is primarily understood as *scrutinising management*, this can lead to approval seeking behaviour by the CEO and others. Questions from the Board become negatively interpreted as 'micromanagement', demonstrating a lack of trust. In the worst examples, a powerful, active Board is seen as improperly interfering in the management of the organization. The stage is then set for conflict, with energy being diverted to managing this dysfunctional relationship rather than serving customers or competing in the external marketplace. Honest conversations (see later) can clear up this confusion.



#2. Knowledge Gaps: There is a huge amount of tacit knowledge within individual businesses. The size and complexity of some organisations poses an enormous 'understanding' challenge for Board Members. Where Directors lack sufficient depth of understanding and do not invest time to correct this, it becomes a *'governance accident waiting to happen'*. For example, banking may seem relatively straightforward – but it can be very difficult to define the risk profile of some products. The same point applies across most industries. The best-managed Boards ensure that members acquire a deep understanding of the industry and the internal workings of the organisation. Induction of new members, ongoing visits to subsidiary locations, presentations on new product/technology developments and attendance at trade conferences are all mechanisms to achieve this.

Issues: Underutilisation of available Board talent is common. Too much time is spent reviewing 'PowerPoint presentations' (steady diet of trivia) and not enough time is invested in understanding substantial issues. Sometimes information is 'hoarded' from the Board by CEO's who fear that direct contact with staff or external stakeholders will weaken lines of authority. Depending on the make up of Board members, they may only have a limited amount of time or appetite to invest in the organisation (this issue should be dealt with at the contracting stage). While some Directors feel little *personal* responsibility, changes in legislation around Directors roles means the *'just show up'* types put themselves seriously at risk.

#3. Poor Routines: The Board of an organisation is faced with the same tasks as any other team. They need to ask and answer the following questions: Are our goals clear? Are our individual roles clear? Are our processes clear & efficient? Do interpersonal conflicts hinder our effectiveness? How could we improve the way we do business?

Issues: Often boards are comprised of senior executives, people used to *'having their say and getting their way'*. Managing the dynamics within this group can be difficult. Powerful individuals ≠ a powerful team. Overall, there is a need to focus on the *constellation* — rather than the individual stars.