

TRANSFORMATIVE LEADERSHIP FOR WORLD CLASS BOARDS



* Anil Sharma

Here's an interesting statistic that's gleaned from a recent survey done by the National Association of Corporate Directors.

"Only 25% - of the total time available to Board Directors was devoted to reviewing key company data and reports!"

Of the 250 hours spent on average every year by Directors on board-related matters, only about 61 hours were for digesting reports and a large part i.e. 74 hours spent in Meeting process.

What happens when one becomes a spectator to classic board practices, where Directors are inundated with heavy spreadsheets of accounting tables, massively scripted power point slides and thick reports? Is it possible that an Independent Director comes up to speed on board pack inputs and be equipped to ask relevant incisive questions – especially when Boards run in a reactive stance? Isn't it natural to see during meetings, where these Boards get into a post facto analysis rather than thinking ahead about the business environment with an external focus?

How is this information pack helpful to drive good governance? What's the difference between the largely rubber stamp Boards of more than a decade ago versus what is really needed in this age of frequent business model disruptions?

Start with Leadership

Boards will need to transform as forward-thinking group of leaders that meaningfully straddle the two sides of delivering Shareholder expectations and overseeing Executive Management. What is the way ahead for passively run Boards that are jargon-fed by executives and typically deliver scripted statements to shareholders? This issue was recently observed during a press statement delivered by the Board Chairman of a large private bank in context to a matter of related-party enquiry.

A Board member aspires to make the best of opportunities for the companies' stakeholders and starts the journey with that first board role and a hope to contribute meaningfully at the table. Yet when they reach there, they get caught up in the drudgery of the '*this-is-our-process-here*'. They continue to spend their time on compliance, analyzing reports, other administrative trivia and all the while missing sight on the real strategic and substantive matters for the business. In this grind, they miss the chance of making an impact to the organizational objectives.

In the subsequent sections, let's argue for doing what is right and deploy transformative leadership to restructure governance practices for a world class Board.

The following three parameters are ripe to be accepting transformative leadership for effective governance;

1. Defining job profile and reviewing performance for Boards
2. Shaping board dynamics with the management
3. Retooling the Governance operating model

Most Leaders remain unaware of their weaknesses

In Coaching practices, this came as an interesting observation: when Leaders went through a 360-degree leadership profile assessment, they came up with low scores on certain leadership behaviors. Naturally Leaders were baffled looking at the rater scores. They became receptive after the initial shock had given way to acceptance.

What comes about as a weakness is a result of the Leader *not doing something*. Given that no outward impact was seen by the Leader as a result of missing out on something, this resulted in him getting completely blind sided. This is more like an act of omission, which does get noticed by stakeholders around you. People outside can see this flaw, but the Leader himself remains oblivious to it and this has obvious impacts sometimes damaging to the course of business. Only awareness can help create the need for a solution. But how does one increase self-awareness?

Is it possible for people to be self – introspecting, that too at all times?

This is where the need for board performance reviews was mooted by leading regulatory bodies globally. The SEBI Committee on Corporate Governance recommended it in 2003 as a non-mandatory provision and thereafter in the Companies Act of 2013 this provision became mandatory for all listed companies to be practiced in India, for better performing boards.

1a) Board Performance review

The sole purpose of an exercise in board member performance review is to elicit the full potential of the directorial board for the stakeholders. The results and consequent improvements from this exercise feed into good governance practices at the board level and fulfill the organizational strengthening motives. While there are many external experts that carry out board reviews - what are the key assessments to be sought?

A good review can glean the unique strengths that each member brings

to the table and allow for optimum role mapping according to one's strengths. Another question could be - Is there an area that needs development and if suitable content & schedule is allocated for the Directors training?

Some of the areas that can be further assessed are:

- What is the contribution level of each member to the management discussions & analysis?
- Does the member adhere to the consensus format and the culture code of the board?
- What is the level of strategic involvement in the board discussions and is there a level of healthy challenger questioning to the executive teams?
- What has been the readiness to deploy time in the field and understand business challenges and opportunities first hand with the execution team?

The questions need to assess whether the members have an eye for the future? Whether members are inquisitive and open enough to get feedback for improvement of their own behaviors?

The questions will have to be extracting a narrative from the assesses, as is done in open ended questions. At the end of it all, the assessment can guide the Directors to provide their own understanding of the Board processes and how the same could be further improved to make a difference for the better.

The Chair assumes a larger responsibility in discussing the results of the review with each member and shaping the discussion at the table towards productive outcomes.

1b) The case for Board job profiling

Board members under the sense of delivering value to the management discussion at times may spar with the executive team and get carried away in emotion. There could even arise differing views between Board members on crucial issues. At this time an objective sparring could happen, but personal decorum needs to be maintained. This is easier said than done when there are no specific responsibilities and purpose defined for the board members. By inculcating a professional Job profile that goes along with the responsibility, one can expect good understanding of the role ensuing in robust board practices.

Any profile definition starts with asking about;

What is the purpose assigned for this role? While each company assigns its purpose and charter to the Board - could we agree that a common purpose statement would include providing effective governance to the organization and accept all accountability associated with this duty?

What are the responsibilities that could be defined for such a role? Here are few pointers;

Vision: Being careful to avoid getting drawn into administrative matters, Boards need to encourage seeing the big picture and look for answers to;

“Why does this Organization exist?”

“Who does it serve?”

“How does it make money?”

Directors need to envision, almost dream and forge clarity on the Vision statement. Members will need to assess the external environment within which the company can deliver on its Vision, as structurally the management will be focused on the internal environment for execution.

Culture: The governing Board is the guardian of the organizational values, which in turn allows to set the tone for developing the Culture across the wider organization.

Strategy: The management is tasked to present its strategy to achieve business objectives while upholding values. The Board comes in with its diverse set of experiences around the table to advice and approve of the strategy and execution model. They also approve the funding structure, the mid and long term financial goals and all major policies that have baked into them the organizational mission and the fulfillment of its strategy elements.

Governance: The board is tasked with appraising, advising and supervising the Leadership (CEO) and overseeing development of the leadership pipeline within the organization. They also balance between control and governance while allowing the management to function without too much of interference. Information structure is clearly defined with the quantum and frequency is agreed upon to have a periodic assessment of the health of business.

2) Shaping Board dynamics

The team dynamics i.e. to forge a consensus on most matters and dissent while being congenial about it wherever it matters, is the most important ability of the Board to get its job done.

While reviewing matters of compliance or strategy all members bring a unique skill set and perspective to the Board and it's important that members take effort to appreciate contrarian view points but at the same time differentiate when an opinion becomes about self-aggrandizing one's own idea versus factual matters of relevance.

A forward-looking Board happens when the whole becomes greater than the sum of its individual brilliant parts and when the whole moves together in harmony a lot of good work gets done.

New members periodically get inducted into Boards and this is where a robust induction process can get harmony going. A robust Board process can be shaped and adhered to by all members new and old alike to get the dynamics going in the direction as needed. This can be done by focusing on the following process and behavioral pointers:

- a) Defining the Culture: The Boards can start with defining the way *we-do-things-here*. It starts with the essence of mutual respect, seeking out contributions from all concerned and arriving at consensus by focusing on the facts while discounting the stories.
- b) Board evaluation: In the spirit of continual improvement at all levels of the organization, an external evaluation is regularly sought, and its insights gleaned to improvise on the effectiveness of the entire group.

- c) Setting expectations and boundaries with Executive Management: Boards need to consider their own Job profiles and avoid getting into doing the Managements work for them. This should help define the boundaries where both Governance and Execution can co-exist in harmony and each is free to do what they are assigned to do in the first place. The Governance mechanism can be better structured by setting the Executives expectation on what the Board would like to review and the format and timelines to do so at the start of the budget period.

3) Retooling Governance operating model

Watching corporates invest significant budgets on deploying new age IT tools and experiment with the latest management model and then see them fail - one cannot help but think what was the missing piece in the link?

Successful business leaders who have managed organic growth over large corporations have confided a simple secret and they term it as managing their 'business with a certain rhythm' where a rhythm can be understood as a regularly occurring sequence of processes and events.

In the context of management of a large enterprise this can be understood as the Weekly, Monthly, Quarterly and annual work routines to run the business effectively.

Thus, a governance model defines the process and the relationships that are deployed between the Board and Management to effectively monitor, assess and manage organizational objectives.

Can this be done by a passive Board that is accustomed to receiving Board packs as made up routinely by Management?

Here's an incisive insight from the CEO of GE Jeffery Immelt *"The day a company does not operate with the full trust of its board is the day a company ceases to exist. And trust is an indicator of information flow. So, we must be completely open with, and transparent to, our board."*

When the Board pack contains timely inputs and in a manner that is constructed with the consent of the Board – will it not allow for the Board to focus on insights rather than getting caught up with information overload?

Can the Board define the information packs for a budget year in advance and then allow the management to provide timely & relevant inputs according to the governance model?

What could such a model look like?

Here's an example of the governance model that could be further embellished depending on unique needs;

- I. **Board Pack:** On a quarterly basis, the Board Pack can resemble the Management discussion and analysis for the past quarter and then supplemented with the numbers. This would allow Directors to be sufficiently well read about the quarterly progress on the strategy plan for the year. In addition, the Board will also consume the reports from various committees and appraise themselves to forge relevant actions on assessing the CEO, developing the leadership pipeline and conduct risk management processes across the organization.

- II. **Monthly review:** A quarter is a long period for the Board to be out of touch from the business. Without getting into a meeting, the CEO can be helpful in preparing a Monthly overall review as an email communication that can help keep the Directors updated on the business and market happenings.
- III. **Engagement Surveys:** Boards can request that management initiate surveys to assess very specific issues, for example, the culture of the company, or how well the code of conduct is practiced in the company. Corporates increasingly realize that engaged employees are a source of competitive advantage and engagement surveys are now automated to assess employee engagement levels across the businesses. This can be initiated as a six-monthly activity to assess engagement level of the employees and keep a channel open to concern areas emanating from management layers.
- IV. **Strategy review:** Apart from the Monthly, Quarterly and half-yearly briefings, the Board needs to slot in a Strategy review for the business before the start of the final quarter and assess the direction of the business and its environment. This will help providing inputs to set direction before the start of the new budget year.
- V. **Field visits:** When conducted with operating teams, the joint field visits help assess the improvement areas and the state of competition or other disruptions that could happen to the business.

Meeting one's Purpose

The vision statement is a crystallization of the organizational purpose and this flows downwards from what the shareholders set out for the company to achieve.

How many Boards achieve their purpose?

Arthur Levitt, then chairman of the U.S. Securities and Exchange Commission, complained, *"There are too many boards that overlook more than they oversee. Too many that are re-active instead of pro-active."*

Why does this happen?

One can see detailed job profiles for most employees in an organization and when people know their key roles, responsibilities and the key performance indicators with which they can be measured on performance – the outcomes are predictable.

Does the Board have such a detailed description available for it to function effectively? As a result, one can see Board functioning with a short-term bias and typically fixated on the previous quarter financial results rather than focusing adequately on the strategic roadmap for the business.

Taking time to plan and structure themselves for the governance challenges will allow a Board to start a job that is ultimately congruent with the adage *"Well begun is half-done!"*

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