Improving Board Effectiveness - Questions for Directors

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In the contemporary business environment many directors face uncertainty, insecurity, cyber-security threats, sustainability concerns and the challenges and opportunities of disruptive technologies and new business models. There are also longer-term issues ranging from climate change to declining trust in business and business leaders to address. Directors and boards can have negative as well as positive impacts. They are also under greater scrutiny as expectations of various stakeholders rise and Governments and regulators add to their responsibilities. This article examines some questions that directors should ask to assess the effectiveness of corporate boards.

Questioning Board Contributions

Could the board of your company add more value? Are its composition and how it operates appropriate for your company at its particular stage of development and in the context in which it operates? Do you feel that you and your directorial colleagues could make a greater contribution to the future prospects and success of your company? How could you increase your impact? How relevant are your experiences and skill sets for the challenges and opportunities you and your fellow directors face? Are you aware of what is happening in the business and market environment? Does your input and your capabilities match corporate aspirations?

Do you get the support you need and answers to the questions you put, or do you feel things are happening which you do not know about? Are board papers and discussions balanced in terms of presenting arguments for and against proposed courses of action, the risks involved and possible longer-term implications and consequences, whether positive or negative? Are particular inputs biased or sanitized? Is bad news hidden? Are papers blocked or re-written by gatekeepers? Do cabals of directors or certain vested interests exert undue influence? Are there whistleblowing or other arrangements that allow concerned individuals to raise issues without being blocked by those above them in the executive and/or governance structure and suffering negative consequences?

Are you fully informed of your legal duties and responsibilities? Has corporate governance become a box-ticking exercise that is focused on compliance? Is it leading to risk aversion? Is it inhibiting or enabling creativity, innovation and entrepreneurship? Experience of helping and working with directors and boards in over 40 countries suggests that most of them could add more value and be more effective. There is also considerable untapped potential in many corporate boardrooms. IOD's forthcoming National Convention on Driving Board Effectiveness and Quality will be looking at how this potential can be released.

Rubber Stamp and Cosmetic Boards

Ideally, boards should add value and provide challenge. Some owners and/or CEOs seem to prefer a compliant or rubber stamp board that goes along with their aspirations, preferences, priorities and policies, nodding through business when required and generally not rocking the boat. A founder entrepreneur seeking finance might adopt a window dressing approach and seek a decorative board of directors who “look good” on prospectus documents. In the case of a family company, loyal retainers may be appointed who can be relied upon to support and agree with family members and step aside when a younger generation is ready for the boardroom.

A collection of individually impressive individuals does not necessarily result in an effective boardroom team. One cannot assume that members of a board will like each other let alone work well together. Some boards are replete with personality clashes, personal rivalries and individuals and/or groups that disagree on quite important issues, yet they muddle along. Cracks are papered over and contentious matters are progressed without being put to the vote. It might be obvious to a fly on the wall that a chairman and CEO do not get along, mutual respect is lacking and some directors are rarely given an opportunity to put their points of view. On occasion, it may appear as if directors' fees are payments for remaining silent or looking the other way.

Those who seek or tolerate a weak board may be taking a huge risk in uncertain and fast moving situations, particularly when as directors they have onerous legal duties and responsibilities. In some jurisdictions external parties can be litigious and increasingly willing to question and take action against board members. As ever more responsibilities are heaped upon directors, stakeholder expectations rise and even the most committed and hard working of directors struggle to keep abreast of all developments, totally relying upon one's own judgement is a risky and foolhardy strategy. The wise and confident seek out the opinions of others and bring a wider range of experience and

judgement to bear on important decisions.

Addressing Realities

One should never assume that today's directors are current and competent or that boards are effective, even if they may have been so in the past. Board effectiveness usually results from what directors do and how they behave rather than a governance architecture. As already mentioned, assembling a collection of good people will not necessarily result in an effective board. Confident directors regularly identify and discuss obstacles to improved directorial, board and corporate governance contribution and performance. They actively explore ways of overcoming them.

Boards need to be realistic when assessing how effective they are at discharging their core responsibilities. Is your board providing a compelling vision, a clear rationale, purpose and strategy, actionable goals, values and objectives, and a will to succeed? Is it ensuring the necessary resources, capability and processes, a competent management team and an appropriate framework of policies are in place? Does if agree and monitor ambitious but achievable aims, plans and/or targets? How effective is it at safeguarding intellectual and other assets and ethical standards, reporting performance and building and sustaining relationships with key stakeholders?

Directors should be alert to danger signals such as a weak finance function, arrogance and hubris, consideration of too limited a range of options, over-reliance and emphasis upon a narrow range of short-term targets or customer complaints. Is intolerance, risk aversion, a lack of diversity and over-emphasis upon compliance killing creativity and innovation? Have succession issues been overlooked? Is there a distinct lack of objectivity and fairness when directors review their own performance and when remuneration policies are suggested and agreed? Board succession plans are sometimes inadequate and there is a public perception that many directors are over-paid in relation to the value they add, Do advisers tell directors what they think they would like to hear?

Ensuring Fundamentals are in Place

A clear and appropriate allocation of roles and responsibilities within a board and the quality of relationships between key directors, and with key officers such as a company secretary, a chief executive (CEO), financial, legal or risk officer and internal and external auditors, can be important building blocks of board effectiveness. While separating the roles of board chair and a managing director (MD) or CEO has advantages and may be advised by an applicable governance code, relationships between the two can sometimes be strained. Is the chair of the board giving a lead in relation to managing the business of the board, while the MD or CEO is allowed to lead the executive team in the implementation of the strategic direction provided by the board? Does the board interfere in operational matters which ought to be the concern of the executive team?

Effective boards make good use of internal and external auditors and chief financial, legal and risk officers. They have an organisation wide remit and should be objective and professional and also do what is in the best long-term interests of a company. Does the company secretary help to ensure that information going to directors is accurate and timely, the respective roles and responsibilities of a board and its committees are clear and comprehensive, and that directors have access to the legal and other advice they require? Good litmus tests are whether unethical conduct is punished, people are treated fairly, executive and non-executive directors form one team, directors invite independent and objective review of their own performance and remuneration, and how they react to criticism.

How effective is the board at providing strategic direction? Is there a clear statement of matters that are reserved for the board? Is the allocation of time between and across them appropriate and sufficient? Is there enough diversity in the boardroom to encourage healthy scepticism and debate? Is decision making well informed, objective and robust? Are the interests of a range of stakeholders and board members taken into account when decisions are taken? Are the risks, consequences and implications of decisions thought through? Do directors have time to reflect or are decisions pushed through? Do they think and exercise independent judgement?

Relationships with Stakeholders

There is an expectation on the part of some regulators that effective boards will engage with a wider range of stakeholders. This can involve regular communications, contacts and feedback, surveys, some involvement in setting business guidelines, objectives and priorities, and other opportunities for collaboration, co-creation and participation. Should a board establish forums, advisory panels, focus groups, liaison committees or other mechanisms for securing greater stakeholder involvement and enabling them to become more intimately connected with particular activities?

The relative importance of different stakeholder can vary between entrepreneurial and family companies run by owner directors and listed or quoted companies whose directors and boards may in practice be required to give prominence to relationships with shareholders over and above the special status they have in company law. Much will depend upon the nature, distribution, motivation and significance of investors. Is ownership spread widely among many people for whom their shareholding may represent an insignificant element of a diversified portfolio, or are there major shareholders whose views need to be understood?

What role should directors play in liaising with shareholders? How effective is the board chair in an external representational role? Are chairs of board committees, such as the audit, nomination and remuneration committees, in touch with shareholder opinion? Do Annual General Meetings and Annual Reports reflect and address

shareholder interests and concerns? Do they just follow a standard model or template? Is sufficient effort made to be current and relevant and to collect and respond to feedback on how information is received, regarded and used by different stakeholders? Directors should ensure that potentially important and valuable activities that require thought live and do not become unthinking monthly, quarterly or annual routines and rituals.

Achieving Balance

Boards need to achieve a balance between various factors such as reacting to events or being proactive and the contending interests of different stakeholder groups. Is a board making the right choices when setting priorities or handling trade-offs? What about balancing short-term and longer-term considerations, or the interests of different generations? Some boards are so preoccupied with addressing a multitude of immediate issues that pull them in different directions that they ignore or overlook external trends and developments and miss strategic opportunities. On the other hand, a board that fails to cope with immediate threats may not be able to implement longer-term initiatives.

Few companies can operate for long without mutually beneficial relationships with certain groups, whether employees, customers, suppliers, business partners, local communities or public bodies, and the support of legal and licensing authorities, regulators, utilities and other providers of essential services. To balance the interests of different stakeholders one needs to understand them. Is there an agreed list of key stakeholders and are there effective formal and informal ways in which a board can obtain a realistic understanding of their aspirations and concerns? Are these taken into account when board decisions are taken and can this be demonstrated? Should particular directors have a brief to assess, understand and express the perspectives of certain stakeholder groups?

How convinced is the board that what it is doing is right? Do key players in the boardroom welcome and discuss internal and external comment, feedback and alternative views? Do they just issue one-way communications and drive their decisions through a corporate organisation, or do they also listen and change direction where appropriate? Are they single minded and relatively closed as a group, or more open minded and willing to consult, sound out other opinions and learn? Are they possessive or willing to collaborate and cooperate in order to achieve a larger purpose?

How flexible are board members? Do they review what they are setting out to do as situations and circumstances change and new business models and technological and other options emerge? Do they stick to a party line, a vision, values, goals, objectives and strategies that have been agreed and past policies and positions, or are they willing to re-visit them in a changing and uncertain world? Do they lock themselves in, act on the basis of past data and experience and plough ahead regardless, or read the road ahead, and intelligently steer in the light of emerging requirements and priorities, real time information, evolving evidence and contemporary considerations?

Reviewing Board Effectiveness

Do corporate values live? Are they reflected in board decisions and priorities? Do they inform recruitment, selection and promotion decisions? Do reward, remuneration and incentive policies and criteria support corporate values and encourage desired behaviours, or do they negate and/or distort them? Are regular surveys undertaken to assess attitudes and feelings towards a company and its people, policies, priorities and practices? Is this information triangulated against employee, customer, supplier and investor churn and retention data? Whether through visits or other means, are independent directors taking steps to test the temperature and understand how people feel?

Are discussions within a board concerning board effectiveness and the results of annual reviews hidden or shared? Some boards are naturally reluctant to disclose identified deficiencies, or what they would like more of, for fear of concerning investors or informing a commercial rival's competitive intelligence. Much will depend upon listing, legal and other requirements relating to the disclosure of information, but where appropriate certain boards have found that a more open discussion on board effectiveness and future board and governance arrangements and requirements can result in useful feedback and suggestions from key shareholders and other interested parties. Where there are shared interests and there is commitment to co-creation, could these be extended to the board?

Board effectiveness should be a core responsibility of a board chair. Objective external involvement can benefit board reviews. Shallow exercises, over-generalisation and adopting a standard corporate governance model developed to address the problems of companies in another jurisdiction in a different era may not be the best solution for a particular company today. Awareness of limitations can be an important step towards addressing them. Honesty, realism, more relevant and appropriate governance arrangements and releasing the untapped individual and collective potential in directors and improving the effectiveness of boards can reduce hidden and overt divisions, tensions and insecurities, build trust and relationships with a wider range of stakeholders, boost performance and lead to longer-term and more sustainable corporate success. ■

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