London Business School

The **Future** of **Board** Effectiveness

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Reflecting back on the collapse of Polly Peck 31 years ago, and the growing number of globally recognised corporate governance failures; we cannot help but wonder if the business community has made as much progress as it could in ensuring sound corporate governance. Few would disagree we continue to see wave after wave of board governance failures across sectors, that are similar in nature.

We recognise the UK current Corporate Governance Code (the Code) represents a formative, ongoing effort to make explicit what drives effective and healthy board cultures. The Code also utilises substantive evidence-based research to inform its content. It is an effective Code, worthy of the global influence it enjoys.

Here are some of the key things we feel are especially working well in regard to efforts designed to accelerate board effectiveness, and should inform the next generation of global governance efforts.

First, is the increasing emphasis on external board assessment – bringing outside experts into the boardroom to facilitate a conversation about how the board is functioning. Not every assessment has the kind of positive impact one might like, but most provide data to inform the kind of process discussions every high performing board or team needs to have.

Acknowledging the increased regularity of external board assessment, we specifically note the 2018 version of the *"Guidance on Board Effectiveness"*, published by the Financial Reporting Council, offers rich but practical insights to draw upon. We are especially encouraged that the *"Questions for Boards"* sections contain a significant proportion of open questions (who, what, when, how) which we know drive effective dialogue, exploration and reflection, and are catalysts to fundamental mindset shifts and positive behavioural change in the Boardroom.

We are also encouraged to see the guidance moving towards providing crisper "behavioural-based" statements (e.g. ability to listen, ability to develop trust) as opposed to just behavioural references (e.g. courage, openness, honesty). This is an extremely positive shift; the more descriptive we can be in providing *working definitions* around behaviours (especially ones research show drive healthy board cultures and general board effectiveness), the better.

Where is Board Development?

However, our interactions and observations over the past 18 months have left us wondering why there is not more conversation about what is happening in the "board development" space. At the Leadership Institute we describe "board development" as future-focused efforts that involve proactively working with Boards over a time-bound period. Working to move from evaluation recommendations to identify and engage in activities targeted to improve the working practices of Boards – at both the individual and whole board level.

This observation was supported by a recent conversation we had with a CEO who was exploring commissioning the Leadership Institute's support on a Board Intervention. He shared that upon reaching the end of a tough board evaluation process, he was told by the board evaluator to seek support on board development activities (given he felt this was not his area of expertise). Do know, we are not suggesting that those conducting board evaluation should also be prepared to offer board development support. But our sense is assessors too often just highlight issues, make

recommendations, and leave those with Boards--even if when it is clear Boards do not have the ability to address the issues raised on their own.

Of even greater surprise to us is the awareness that there are only a handful of firms we know who are conducting, partnering, and/or seeking, to offer developmental support to Boards at all. With even fewer seeking inputs from behavioural scientists and/or using evidence-based insights to inform their efforts.

The more fundamental insight that has emerged for us is that many Boards, Chairs and board evaluators conflate the definitions of "assessment", "evaluation", "development" and "learning"--the latter often sorely absent in many of the board development activities we have been exposed to.

Knowing what is happening (including what is working), how to improve it, and most importantly what activities need to be engaged in regularly and over time to build performance over time--these are the factors that allow one to build Board development strategies that have impact.

The narrative provided in the Higgs Report (2003) offers helpful guidelines on how to *"improve board effectiveness, maximise strengths and tackle weaknesses"*. That said, we would be more inclined to work on "building capability to boost performance", as opposed to the term "weaknesses" which is the terminology used in the Higgs Report. Research undertaken by Cooperrider and Srivastva, for example, shows that having a Board focus its development discussion on what works already and then what could be done to increase effectiveness (as opposed to starting with what's wrong or needs to be fixed) can inject a more constructive and engaging dynamic in a Board looking to improve its performance.

The Essence of Effective Board Development

Jeffery Sonnenfeld, a well-known advisor on CEO Leadership and corporate governance in the US and a behavioural scientist, offers a view that provides real insight into thinking about board development. He states: *"Over time, good-governance advocates have developed no shortage of remedies for failures of governance. Most of these remedies are structural: They're concerned with rules, procedures, composition of committees, and the like, and together they're supposed to produce vigilant, involved Boards. However, good and bad companies alike have already adopted most of those practices."* Effective Board development is highly unlikely to have anything to do with structural change. Rather, it is about changing the culture of the Board to find ways to be collectively better information processors, demonstrate better judgment, and thus make better decisions.

Building on the specific questions suggested in the Higgs report, we would add that it is useful to ensure you obtain independent insights on issues as specific as:

• what things are being done by the Board (including conversation topics, structure)

• how these things are being done by the Board (including group/paired/small group discussions, brainstorming)

• relationship maintenance procedures in place for maintaining effective group interactions (including groundrules, reflection, role

clarity, whole Board review of group process and protocols, timing, identification of what behaviour is deemed appropriate or inappropriate in written form)

• protocols/process used for maintaining effective individual interactions (including using behavioural statements/working definitions of actions that boost group functioning, labelling of agenda items so group is clear on what's required)

These issues inform a trio of questions we suggest Boards use either at the outset of debate on an issues, or when taking live "pulse checks" during Board meetings on how they are performing:

1. What are we (e.g. the Board) looking to achieve in regard to the agenda item presented?

2. What is the process we are going to use to achieve the outcome we've identified in regard to an agenda item?

3. Are the behaviours individuals are deploying that are helping or hindering us in achieving what we've agreed to do in regard to that agenda item?

So, what makes the difference between well performing and poor performing Boards? For us it down to three things:

• Identifying the activities that need to be put in place to increase the efficacy of the four issues above;

• A time-bound, dynamic plan of when and how those activities will be executed;

• Creating both a performance and a learning culture in the Boardroom by moving from a "knowing" to "doing" attitude in the Boardroom.

Expanding on the latter point, you can't "think" your way into better performance; you actually have to try different things; both in terms of shifting your mindset and how you engage behaviourally. Consciously accepting what one of our colleagues, Herminia Ibarra, Charles Handy Professor of Organisational Behaviour at London Business School, says is critical in terms of personal efficacy—*"What got you here, won't get you there"*. The Boardroom is a different environment with different challenges and dynamics, to those in a senior management team or even a natural work team. And it is often mis-judgments around the environment, one's role and blind spots around the impact of one's behaviours/style that can dramatically derail individuals working on Boards--as well as impacting on your perceived suitability as a Board member in the business communities you are a part of.

Challenges to Board Development

Many board assessment practitioners, and season board members (including Company Secretaries) have said to us the typical individual sitting on a Board has had a successful career and it is unlikely they will be "open" to or "invite" input on how they can be more effective in Board settings. However true this may be, this should not be a rationale for not setting critical expectations for Board member engagement and performance--especially in the case where there are experience executives taking up Board roles for the first time, but late in their career.

We are coming into contact with more and more Chairs who have developed strategies for pushing group and individual performance

in the Boardroom. For example, writing letters of appointment to board specifying behaviours such as "We expect you as a NED to listen sensitively to the views of others, inside and outside the Board; To gain the trust and respect of other Board members;" and so on. Setting clear behavioural expectations helps to remind and reinforce best practice behaviours. Those same chairs will also then typically ask each director to self-assess on those same behaviours as the basis of a discussion. So as time progresses, we suspect individuals aspiring to take up Board roles--that are not open to learning, feedback, growth and development-- will find opportunities to serve on boards increasingly limited.

Conclusions

The London Business School is keen to share its insights and offer support to all involved with the practice of board assessment and development, providing specific support in understanding how these insights can play out in practical scenarios.

For example one activity we have been engaged in is acting as "thought partners" with collaborators who undertake Board evaluations. The aim of these engagements are to help them explore how they might incorporate more behavioural insights/approaches into their activities with Boards. As well as helping them ensure their personal approaches/styles don't end up colluding with insights emerging their work.

The Leadership Institute is also exploring the concept of curating "evaluation readiness" activities. Currently these are designed as working sessions with Boards which act as a "pulse check" to prepare the Board to review both group and individual performance, as well as providing input on evidence-based insights on what research shows drives Board performance. These sessions often involve working an issue the Board agrees beforehand they would welcome some fresh insight on.

To close, we are not suggesting that all those doing Board evaluation and assessment should be offering a "soup to nuts" service, offering development support as well. We would, however, like to see more of those offering services to Boards ensuring the entire "supply chain" leading to performance improvement is being served and addressed. In a way that feels integrated and outcome oriented. ■

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