VALUE DRIVEN BOARDS

Know Thy Self

Increasing self-awareness is seen as a key attribute of effective leaders.

In our view, self-awareness is equally important for those responsible for the appointment of organisations' key leadership team – boards of directors.

We believe that boards, like the individuals that sit on them, are never static. They are forever evolving in response to the environment in which they and their organisation operates.

A self-aware board knows its strengths and weaknesses, avoiding many common biases in their decision making. They will be honest about the capability needed for the board to make a meaningful contribution to the organisation. They will be courageous in naming and working through any cultural malaise in the organisation. A self-aware board will not collude amongst itself or with the CEO. Above all the self-aware board will build strong interpersonal relationships at every level that will support achievement of the organisations goals.

Self-awareness and any improvement that follows come from starting where you are: an honest assessment of the place you are in now.

Some boards are relatively new and are focussed on establishing the foundations within which they will operate. Conversely, other more mature boards may face challenges in how to continuously improve themselves and their organisations. And there is of course the wide depth of boards that sit somewhere in between.

Some of the places your board might find itself are represented in Table 1.

Table 1: Where Are You Now?

The "Well Intentioned" Board	The "High Performance" Board
• Limited/emerging governance • Well intentioned individuals • Limited skills base • Rudimentary succession planning	• Strong governance model and role • Strong contribution to strategy • High skills level matching entity needs • Strong management respect for board • Regular board performance review
The "Starting Out" Board	**The "Challenged" Board**
• No governance model or charter • Limited skills depth and mix • Embryonic understanding of director's role • Stakeholder specific directors • Loose collection of competent individuals	• Governance model not fit for purpose • Poor behaviours • Often a dominant player • Management and board misaligned • Developing management capability

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How to Know Thy Self

Good governance practice encourages boards to undertake regular performance reviews. This is reflected in the public arena. The Australian Securities Exchange recommends that boards of publicly listed entities undertake regular periodic evaluation of their performance.[1]

Some boards undertake performance reviews based on a self-assessment tool. Others undertake independent reviews.

In our experience, an effective board review addresses all three elements of board structure, behaviours and outcomes. Underpinning each of these elements is an assessment of what value the board creates for its organisation. These are reflected in the agreed outcomes of an effective board review.

Every Journey begins with a First Step

The key for any board is to be able to answer the question – do we add value to our organisation, and if so how? If not, why not?

Table 2 identifies the type of value created by boards at different stages of their life-cycle and outlines action these boards can undertake to add value to their organisation.

Table 2: Board Value Types

Ad Hoc Value	High Value
Looks Like: The Well Intentioned Board	**Looks like:** The High Performing Board
Results in: Ad-hoc value created, highly dependent on the capability of the Chair, skills gaps sub-optimise board contribution and support of management.	**Results in:** Competitive advantage, strong support and ideas generation for management.
Need to: Develop and document governance model, define board management relationship, improve succession planning, increase board leadership in strategy development.	**Need to:** Establish/strengthen board plans/KPIs. Direct peer to peer performance review, master class development for directors, behavioural profiles for high performance, case study documentation and advocacy of model in the sector.
Limited Value	**Schizophrenic Value**
Looks like: The Starting Out Board	**Looks like:** The Challenged Board
Results in: Limited value created; few board level decisions made, stakeholder interest (rather than company interest) predominate, management-led organisation, management either are indifferent to the board or 'manage up'; may impose significant reporting burden on management as not clear about what information they need; limited satisfaction as a director.	**Results in:** Schizophrenic outcomes, value may be created but at high cost, other times no value created due to internal issues or value lost due to governance distractions, higher than average turnover in directors/managers, tense board-management relations, frequent changes to processes and reporting systems, some directors/managers feeling threatened or unsafe.
Need to: Define role and governance model to deliver value, agree and sign off on a code of conduct, establish a board reporting system with management.	**Need to:** Develop a board-management partnership agreement (protocol), undertake succession planning, profile behavioural characteristics of directors, managers and the team, review key governance systems and structures.

Change Happens

A common transitional story is that of the well-intention board developing into a high performance board. An example we have experienced with that transition follows.

[1] Australian Securities Exchange Corporate Governance Principles and Recommendations 3rd Edition, Recommendation 1.6.

The board of WestCo - a for-profit organisation - was struggling to find a role for itself. WestCo provided shared services to a number of member organisations. It had a well-developed management team and high performing CEO who had delivered consistently good results in the recent year. However, the board played largely a risk management and performance monitoring role, with little engagement in strategy … but the environment was changing bringing new challenges.

The board was made up of a mix of "professional" directors and "nominee" directors appointed by the particular member consistencies. The nominee directors, while generally well intentioned, were politically savvy and used their position to the advantage of the member groups who nominated them.

At the board's annual retreat, the board undertook a workshop to explore board performance. A number of directors were both surprised and pleased that others shared their concerns over the performance of the board, especially that they were playing a rather passive role and had little in the way of discussion at the board meetings. Until now they had felt on their own and had not spoken up. A number of initiatives were identified that could begin to improve their performance, none of it drastic, but began to subtly reshape the boards role to have a greater focus on performance over supervision, for example by putting regular strategic discussions onto the board agenda at the start of the meeting.

As the board developed and grew, board meeting frequency and structure was changed to ensure strategic issues received more airtime, including theming board meetings or parts of the meeting as "strategic" and others as "monitoring". A basic board renewal plan was put in place and new "value adding directors" were brought on.

Wanting to measure their performance, the board undertook an external performance review which engaged with board and management. The review raised some subtle behavioural and role modelling issues, especially in terms of how directors were seen by management – often good independent thinkers when making decisions but overly critical and distrustful in their supervision role.

Another outcome of the board review was establishment of a 12 month board plan. The board began to use the plan of what value it was seeking to create to drive the more structural aspects of its operations such as board appointments, reports and meetings. This meant the board had to be very agile in its processes. One result was that board committees were transitioned into working groups and worked around projects rather than a terms of reference, adding and changing membership and outside advisers as the projects required.

While the Global Financial Crisis saw a drop in performance as funding was challenged and some cultural upheaval with management changes, the board maintained a steady course for the organisation with a focus on the agreed strategic objectives. In recent years there was a near seamless chair succession process as a result of pre-planning and very transparent process 18 months prior to the event - a clear sign of good performance was a well-developed and near seamless chair succession process.

Issues remain but the board has established a value creation "operating system" by which they can judge their response.

While a board will have specific development actions according to their own journey, there are some useful tips that all boards can consider.

Actions to consider

1. Undertake an internal or external review to gain self-knowledge as a board, and where you sit in the value creating spectrum.
2. Be honest about the board's strength and weaknesses.
3. Design a board plan that identifies the contribution the board's wishes to take and the governance improvement plan required to achieve that.
4. Implement management type disciplines to deliver on the plan, include identifying:
    - activities
    - timelines
    - responsibilities, and
    - an accountability mechanism such as an annual review, committee responsibility or reporting arrangements.

No board is so broken it cannot improve (although sometimes structural impediments need to be removed), and no board is so competent that they cannot grow even further. Consider:

1. Where does your board most fit in terms of value creation?
2. What are the forces for change in the board and how can they be amplified?
3. What will resonate most with the existing board and management to motivate change?
4. What are the opportunities to use external resources to support change?
5. What is the size of the prize – where could value be added that would greatly benefit the organisation?
6. What is the first step that could be taken?

Board performance is very much like self-awareness – a never ending journey. It begins with knowing thyself and a desire for self-improvement. Not every board is high performing or remains high performing. Yet in our view, it is incumbent on every board to be able to identify its current value proposition and how that might improve for its organisation.

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