

CHAIRMEN &  
NON-EXECUTIVE  
DIRECTORS  
DISCUSSION  
& DINNER

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# GETTING THE BOARD TO WORK

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## Overview

Telos Partners held a dinner discussion entitled "Getting the Board to Work: How to Make the Board More Effective" in April 2015. The event was attended by a select group of Chairmen and Non-Executive Directors representing a diverse range of organisations: public and private companies, the co-operative movement, sporting bodies and NGOs.

Telos believe that for organisations to achieve long term sustainable success they need to balance the demands of key constituents – shareholders, customers, employees, partners and the community. Success cannot be measured in financial terms alone. Boards play a vital role in determining what success looks like for their organisation and whether an organisation is set up to deliver sustainable success.

Over the course of the evening there was a wide-ranging discussion around three questions:

- What is meant by board effectiveness?
- How important are the behavioural dynamics to the working of the board?
- How well do boards manage their own performance and development?

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# WHAT MAKES FOR AN EFFECTIVE BOARD?

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The question 'what makes for an effective board?' is not a trivial one. There is no agreed definition as to what the term means. The major streams of thinking focus on the role the board plays to represent the interests of shareholders (or key constituents) by overseeing management, the part the board plays in determining the organisation's strategy and its influence on organisational culture.

Regardless of the most appropriate role of a board, it is also not clear how to assess a board's performance. Do you use the organisation's financial performance? Or do you examine the board's performance against a set of 'best practice' criteria? A Stanford University Law School paper<sup>1</sup> examined the ability of major governance ratings agencies to accurately evaluate board performance. The conclusion was that the governance ratings had weak to non-existent predictive power of board performance.

At Telos we have developed a definition, based on the experience of our consultants who have worked with boards and senior executive teams. In our opinion: An effective board is a cohesive and organised group with complementary experiences, whose members are mutually accountable for achieving a common purpose and outcomes through collaborative behaviours and debate.

Key to this definition is that:

- Boards develop and agree a common purpose – their rationale for existence, and use this to assess their own performance;
- An effective board has many of the characteristics of a high performing team – complementary experiences, mutual accountability and the right behaviours;
- Getting the right organisation and structure in place is a necessary but not sufficient condition for board effectiveness.

**Organisational context:** Participants strongly agreed that boards do not operate in a vacuum, rather they operate in a certain context and are affected by a range of external factors and influences (such as shareholders' expectations). This is not just about their industry and the makeup of the board, but also the situation the organisation finds itself in. A board that is in a growing environment will need to operate differently from one in a much more challenging situation. Similarly, there was recognition that the board is there to represent a range of interests (e.g. shareholders, employees, or customers), and therefore these interests and the board's context need to be incorporated in how it operates. This context is important, whether looking at a board's overall effectiveness, its behavioural dynamic or its development.

**Importance of the Chairman:** Another central theme that was referred back to was the role of the Chair and the importance of the person filling this role. People noted that many Chairmen have very strong personalities and they stamp their authority on the board in many ways. There was also a discussion about the importance of the relationship between the Chair and the CEO, and one participant told us that when this relationship broke down in their organisation it was necessary to change CEO. There was also discussion on the role the Chair plays in setting the tone: from how they tee up the discussions to which subjects are brought to the board table, as well as setting expectations of board members. In addition, they are seen as important in getting the best out of individuals and the board as a whole.

**Diversity of experience:** People raised the subject of diversity on boards, not just in terms of gender and ethnicity, but also in terms of disability and mental health. The discussion evolved into the recognition of the importance of having diversity of opinion and thinking. One person shared that a board they served on had worked at understanding the different styles and approaches of the board members. This intervention had helped them to better understand each other and benefit further from this diversity.

**Short-term vs. long-term:** Participants from listed companies noted the challenge that directors face in being able to focus on the organisation's long-term interests, given the perceived requirement to look after short-term share price. They explained that share price considerations factor strongly in every decision and often took precedence over long-term interests.

**Purpose and commitment:** A number of participants noted the importance that the board needs to represent the soul of the organisation. The fact that the board need to be clear on what the organisation stands for, as well as the part the board needs to play in inspiring people and its culture.

**Access to information:** Another point raised was that boards can only be as good as the information they have at their disposal. For much of this information, boards are dependent on the CEO and the Executive Directors, and their willingness and openness to providing the board with information that has not been massaged to meet specific ends. Some people felt that CEOs want to overly control the flow of information that boards have access to. Participants also mentioned that time limitations were also an issue in terms of Non-Executives being able to be as effective as possible and use the information at their disposal.

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## HOW IMPORTANT ARE THE DYNAMICS TO THE WORK OF THE BOARD?

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In a Harvard Business Review article on "What Makes Great Boards Great", Jeffrey Sonnenfeld<sup>ii</sup> argued that the difference between good and bad boards was not their rules and regulations but rather the way people work together.

We believe that the behavioural dynamics in the board are a key determinant of success. In our opinion, there are a set of behavioural characteristics that make for positive board dynamics:

- **Cohesiveness** – Given the nature of demands on boards, they cannot afford to be a loose set of individuals who periodically interact. Boards, like high performing teams, work together by mutual consent, sharing information, resources and decisions. Research has demonstrated that board members value the chemistry of the board and team spirit as important elements of board effectiveness.

- **Debate** – Boards are decision-making groups, in which the ability to debate, challenge and advocate is inherent to the way they work. Board members must therefore find a way to have their views heard in order to make sure the board is making best use of their skills, expertise and experiences. Without debate and challenge a board is likely to place too much value on consensus and cohesiveness.
- **Conflict Resolution** – It is important that natural and desired tensions created by challenge and debate do not break the code of collegiality. Therefore norms and behaviours must operate to mitigate tensions and ensure productive discussions take place. This can be achieved by techniques like: agreeing and managing appropriate and inappropriate behaviours, or assigning people to take on the role of devil's advocate in key discussions.

**Getting the chemistry right:** There was strong agreement that getting the chemistry right in the boardroom is vital. People shared experiences of the efforts they had seen to achieve this. Some participants talked about boards that actually considered chemistry as an important element in the selection of new Non-Executive Directors. Others spoke about situations when Non-Executive Directors were elected rather than appointed and therefore it was about finding ways to create the right balance. Regardless, the importance of making the chemistry work was seen as something that requires time, effort and thinking.

### **Relationship between Non-Executive and Executive**

**Directors:** The relationship between Non-Executive and Executive Directors is key to making the dynamic work. From a Non-Executive Director perspective it was felt that Executive Directors did not always recognise the experience and expertise that Non-Executive Directors provide and that there was not always the right levels of trust between them. From the Executive Director perspective it was sometimes felt that Non-Executive Directors were not always suitably prepared nor participative in discussions.

This led to a discussion on how to make sure all directors have the knowledge, capabilities and opportunities to participate, as well as what is the right size for a board. It was argued that, in this case, size does matter. The larger the board the harder for people to participate.

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## HOW WELL DO BOARDS MANAGE THEIR OWN PERFORMANCE AND DEVELOPMENT?

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At a previous dinner with Company Secretaries on the topic of boards, the Company Secretaries shared their observation that boards, on the whole, do not take up collective or individual development opportunities. Yet, at the same time, boards and board members are good at proposing investments in people development within the organisation. This perspective fits with the Telos observation that boards do not feel comfortable collectively discussing their performance and how they need to develop. As a consequence, when boards bring in external parties to run an evaluation process the outcome can be lack of ownership and accountability of the results and recommendations.

There are some important steps a board can take to enhance its own development, these include:

- A clear and agreed articulation of what 'good' looks like for board performance;
- Any board evaluation needs to be owned and undertaken by the whole board;
- An ongoing board development plan with agreed individual and collective accountabilities;
- All board sessions need to make time to discuss performance and development;
- All board members have development goals which cover skills and behaviours.

**Shared experiences and fun:** One participant shared the experience of a board they had been on: despite the board being in very difficult circumstances, attending sessions was always a positive experience. Others agreed and spoke of the fun they had in some of the different boards they had participated in. Some people shared stories of how the dynamics of boards they had been on had significantly improved as a result of the enhanced relationships that had been formed when working through difficult situations, such as dismissing a CEO, or making decisions about major mergers.

**Conversations outside the boardroom:** A key component to successful boards was seen to be the conversations that also take place outside the boardroom. People referred to the way a Chair can diffuse a situation by talking to the right people outside formal sessions. Similarly the conversations between Executives and Non-Executives between board meetings can allow discussion and debate to take place.

**Skills and capabilities of the Chair:** There was recognition that the skills and capabilities that create the opportunity for people to become Chairmen of boards are not necessarily the same as the skills to be successful Chairs. Chairmen are often appointed because of their industry expertise and experience, and their standing. This does not mean that they possess the skills to run a board, manage the dynamics, or get the best out of the other board members. There was acknowledgement that more is required in order to develop and enhance the capabilities of Chairs.

**Nature of board members:** Participants discussed the fact that, given many board members are very experienced professionals, they are used to pointing out the development opportunities of others and are not always open to recognising or acknowledging their own development needs. The fact that many board members have strong personalities exacerbates this issue.

**Getting the best out of the whole board and the individual:** Across the discussion the challenge of getting the best out of the whole board was raised from different angles. The common point was how to make sure all board members contributed. People discussed the different ways they had seen boards seek to enhance individual contributions. There was agreement that the role of the Chair was central to this, and that this required giving board members the time and space in order to participate. At the same time, the size of boards was also seen as a factor in affecting directors' ability to contribute.

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## CONCLUDING COMMENTS

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In today's environment, an effective board is essential, be it a board of a public company, a co-operative, an NGO or a sporting organisation. When boards work well they contribute directly to organisational performance and the mitigation of reputational risks that can damage the organisation's viability. Getting the board to work is not an easy task and the role of the Chair in this cannot be underestimated. It was acknowledged that the Chair, along with the board, needs to carefully manage the board's development across the year.

In addition to the wide ranging nature of the discussion, there were also some areas that were not covered that could provide food for additional thought. Among these were:

- What is the role of the board in nurturing the organisation's identity and culture?
- What are the challenges that boards will face in the future?
- How will the boards of ten years' time differ from those of today?

<sup>1</sup> "Rating the Ratings: How Good are Commercial Governance Ratings?" Robert Daines, Ian Gow, and David Larcker, Rock Center for Corporate Governance at Stanford University Working Paper Series No. 1 September 4, 2009.

<sup>2</sup> "What Makes Great Boards Great" Jeffrey A. Sonnenfeld, Harvard Business Review, 2002.

BOARD EFFECTIVENESS

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