

Orchestrating the Renewal

The path to high-performance boards

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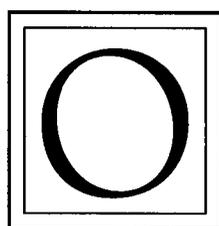


HRMG, LLC

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*Formal research is beginning
to illuminate the path to creating and maintaining
a high-performance board.*

by Ellee Koss, A. Lad Burgin, and Tom Tisch



One of the current challenges faced by executives in building effective and high-performing organizations is the creation and maintenance of boards of directors that are effective and add value to the organization. A call to action has been prompted by the difficulty boards have had in affecting the performance of their organizations in a timely manner, the increasingly activist nature of institutional investors, the sense of ineffectiveness of boards among the venture capital community, and the continual striving for more distinct competitive advantages. Simultaneously, there is little knowledge regarding what constitutes an effective board, how boards can effect high performance, and how a CEO can build

and use a board effectively.

The High Performance Boards Project (HPBP) was launched with the intention of filling that gap. The founding premise has been that an effective board of directors goes hand in hand with strong management — improving one improves the other, and they both improve the performance of the company. The HPBP has been addressing the following questions and issues:

- What are the links between boards and performance of a company? How can those links be fostered to effect high performance?
- What is an effective board of directors?
- How can the current and potential effectiveness of boards be assessed?
- How can an effective board be created and maintained?

The early stages of the research seem to reinforce our belief that high-performance boards are self-organizing, anticipate the ebbs and flows in board effectiveness and get back on track in a timely manner, provide strong and clear leadership, and optimize the 'strategic health' of the organization. Most important, we think the research is beginning to illuminate the path to creating and maintaining high-performance boards. (See sidebar for the plan for the HPBP.)

Over the last six months we have initiated contact with other stakeholders interested in these issues and verified that there is a problem and an opportunity to improve. Specifically, we have interviewed 25 current and former directors, predominantly from the Bay Area. They have openly shared their experiences and thoughts regarding board, organiza-



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by developing high-performance capabilities. Tom Tisch is an experienced venture capital investor who has served on the boards of a number of early-stage companies in the electronics, software, and health care industries.

tion, and director effectiveness. Included in this sample are 11 present and former CEOs and four representatives of major institutional investors. We have also made contact with people involved in corporate governance groups, including the California Governance Group, the 'Roots' group, and the New Foundations Working Group, based out of the Kennedy School of Government at Harvard University.

Desired Attributes

In this preliminary phase we have found a high degree of agreement concerning desired attributes of effective boards of directors.

1. *Effective boards should be aligned and focused* on the 'strategic health' of the organization. Strategic health is a state in which organizations balance short- and long-term goals, objectives, and actions while pursuing adaptability, innovation, continuous learning and improvement, and speed as paths to superior results.

2. *There should be clarity regarding the roles, goals, and expectations* of individual directors, CEOs, and entire boards that is specific to and aligned with the mission of the organization. To assess this there needs to be ongoing evaluations of the CEO, board members, and the organization as a whole, including, and beyond, financials.

3. *Certain dominant relationships display specific characteristics:*

- CEO to board members — facilitator, educator, and bearer of information;
- Board members to CEO — adviser, coach, mentor, asking the tough questions;
- Board member to board member — provide boardroom leadership (according to expertise) and function as a high-performing team;
- Board member to senior staff — provide information and advise if necessary.
- Senior staff to board member — information source.

4. *Communications need to be open and honest*, based on a high degree of trust.

5. *Board member commitment is fundamental* and requires conviction and personal integrity. There is a need for the development of a body of knowledge and supportive structures to bring directors up to speed on the organization and inform them on salient issues regarding both the organization and the industry.

6. *Composition of the board should be appropriate* to the stage in the life cycle of the firm (e.g. start-up, emerging, mature) and consider the present and future needs of the company and the industry. This may require a shift in governance structures that would facilitate reconstituting the board more easily.

7. *Governance structures should enable the renewal and revitalization* of boards.

8. *Other important characteristics* of effective directors include: 'noses in, hands out' attitude; do their homework; ask the tough questions; and provide leadership while being team players.

9. *The CEO is a critical success factor* in the development and maintenance of high-performance boards. Responsibilities in this regard include: creating an environment conducive to finding and sustaining effective board members; being the keeper of relationships; and being a catalyst of communication. To engage board members, CEOs must seek them out, bring questions to them, and perhaps give them projects.

Certain Dilemmas

In both initial and follow-up conversations certain common dilemmas and challenges have begun to emerge.

Inquisitive board members can be perceived as meddlesome, creating fear and disruption within the organization unless both they and the CEO create the proper context for their queries, through communication.

With an ineffective or 'closed' CEO there is the potential for 'good' board members to leave, a mediocre board to remain, the company to run into trouble, and the board doesn't or can't help in a timely manner. In this scenario it takes an extraordinary act by an individual board member to begin to right the ship. They need to act differently than they normally do to force the issue. Perhaps the biggest challenge boards face is preventing this from happening in the first place.

Revitalizing or reconstituting a board is not an easy task. It requires tremendous leadership and fortitude on the part of the CEO or a director.

A major discovery in our research to date has been that while there is agreement concerning the need for the development of more effective boards and for certain board attributes, there has been very little work

There has been very little work done on how to create an effective board.

done on how to create an effective board. To that end our preliminary recommendations involve a process that includes the following elements:

Assessment. Boards need to assess themselves by engaging in a process in which they evaluate themselves. This can be accomplished through detailed interviews with the CEO, board members, and where appropriate and necessary, senior staff members. This is best achieved when the process is facilitated by an outside, objective party.

Feedback. A feedback loop that encourages learning, with regard to the assessment, needs to be created. Use the results of the assessment as a basis for facilitating open and honest CEO/board conversations and dialogue.

Creation. Having had these conversations, explicit expectations, roles, and goals, in alignment with the mission of the organization,

need to be developed. In cases where these have been previously articulated, it is a time to review the relevance of what exists and make any necessary changes. This also includes the development of an ongoing evaluation process of the CEO, the board, and individual members, including, and beyond, financials. This evaluation process should fall right out of the articulation of expectations, roles, and goals.

Team Building. Build the board as a high-performing team. Directors are comfortable in both the role of leader and team member. Leadership is displayed as board members step up to the plate, issue by issue, according to expertise. Hard questions are raised in a supportive manner and in the context of promoting the strategic health of the organization.

In our view, this becomes an iterative process that is done in an ongoing and timely manner.

While the effort to revitalize a board may seem most appropriate to come from the CEO or the chairman, it can come from anyone on the board.

In Search Of a Template

To identify what works and what does not and to create a template of success with a high degree of certainty requires studying a sufficiently large and diverse sample of corporations and their boards. To meet this requirement, we intend to gather detailed information, through extensive interviews with directors and top management, on as many as 60 companies, depending on the level of funding of the High Performance Boards Project study. We will focus on a cross section of U.S. firms in low-, moderate-, and high-performance ranges. Output from the project will include the following:

- A detailed report on the findings.
- An assessment of the linkages between board effectiveness and company performance.
- Characterization of effectiveness and ineffectiveness, including critical success factors for developing and maintaining effective boards.
- A series of action recommendations for creating and improving board and company effectiveness.
- Metrics and benchmarks to calibrate board effectiveness.

- Assessment tools and processes for board effectiveness.
- A series of conferences/working sessions to report findings and engage in dialogue regarding board effectiveness.
- A series of published articles.

There is a variety of benefits to be derived from this research:

1. It will educate management on the responsibilities of an effective director and how boards are assembled and maintained, in advance of dealing with boards and their roles as future directors.
2. In the spirit of relationship investing, this project will provide a means of dialogue between institutional investors and management concerning shareholder, board, and management interests.
3. The results will provide a framework to better understand and assess current and potential performance of boards and their companies as well as a process to intervene and improve performance.
4. This project will enable the development of an inventory of best board practices and the beginnings of a national database on board effectiveness.
5. Internally, the results may be used for assessment and evaluation and to support the initiation of a process for improvement.

—E. Koss, A. L. Burgin, T. Tisch

To be fully effective, boards need to be cultivated and developed with the same diligence, rigor, and high standards of any high-performing unit.

Given this information on effective boards, the challenge for many leaders is one of transforming or revitalizing a moderately effective or ineffective board. This effort is similar to the transformation of an organization. While the scope is much smaller, it is no less difficult. It requires tremendous leadership and commitment — an unwillingness to back down from the task at hand. While the effort may seem most appropriate to come from the CEO or the chairman, it can come from anyone on the board. The biggest difficulty is garnering the alignment and commitment, rather than paying lip service, to the task at hand.

The Orchestration

Orchestrating the revitalization in a nonconfrontational manner contains the following elements:

- Have board effectiveness be a board meeting agenda item. Initiate a dialogue concerning the effectiveness of the board. Ask questions such as: What is the mission/job of the board? Are we accomplishing it? Are we effective? How can we evaluate and measure our effectiveness? Is our composition appropriate to our

present and future needs?

- Lay out the needs of the organization and desirable ways in which the board should contribute. If you are the CEO, also present your needs. Do this in such a way that the rest of the board naturally sees the gaps between the present situation and what is needed.
- Solicit solutions from the board and engage them in a process of building an effective board.
- Create a plan of action.
- Implement the plan.

Within this work on board effectiveness and high-performance boards there is a major challenge: learning to intervene in advance of crises. This requires being able to identify existing and potential board weaknesses and correcting them in a timely manner. To garner the necessary support to act on these recommendations means realizing that boards are an integral part of the organization. Their actions, or inaction, profoundly impact the strategic health of an organization. To be fully effective, boards need to be cultivated and developed with the same diligence, rigor, and high standards of any high-performing unit. ■