

Developing Outstanding Performance In Boards of Directors

By

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Introduction:

Boards of directors are under increasing pressure from the outside world to ensure their company's performance, ethically as well as financially. Investors, regulatory agencies, the media, and lawyers are all looking more closely at what boards are doing. They are demanding that directors serve all of their constituencies, not just the CEO. These constituencies include employees, shareholders, and the broader investment community, as well as society in general. Serving as a director in the twenty-first century has become increasingly complex and demanding as expectations rise.

The broad social community has come to view board members with skepticism. As major corporations implode from the pressure to generate short-term results, unethical practices, demands to justify exorbitant executive compensation schemes, and cynical treatment of both regulators and society at large, the general public has lost considerable trust and respect for directors. The public assumes that greed, cronyism and personal entitlement mean more to board members than does a sense of duty or service.

Directors are being asked to put their money---not just yours---at risk behind the quality of their stewardship. The fact that this is scaring people away from board participation indicates that, on a deep level, people feel that the current system of governance is inadequate.

This attitude of public distrust has made the decision to accept a directorship more sobering. The decision to serve is further complicated by the increased personal risk that individuals assume when they agree to serve today. The Sarbanes-Oxley rule creates increased obligations and risks for directors personally. Directors are being asked, in effect, to underwrite their actions with their personal wealth. That this requirement gives so many people pause indicates that, on some level, they realize that the current system is inadequate when it comes to protecting them from undue exposure and liability.

When good people become hesitant to serve on a board, when potential directors fear that they don't have the time it would take to serve well, and when they worry that the CEO can hold them at arm's length, something is wrong. Bad boards, weak boards and uninformed boards have painted all boards with their dirty brush. As a result, it is in the best interests of all for boards to reform themselves proactively and develop the practices that each board can take to the broad business community to regain credibility. At a time when some very prestigious, sophisticated boards have been embarrassed by corporate failures, no board can sit back and comfortably do nothing.

Re-framing The Business Partnership:

The problems of today's corporations are symptomatic. They indicate a failure in the partnership between board members and the company's executive team. The reasons for this breach may be understandable at an individual level, but they cannot be used to absolve people of their duties. To function effectively, boards must nurture and sustain a robust partnership with those who are running the organization on a day-to-day basis.

In Neal Rackham's 1996 book, Getting Partnering Right, he identifies three fundamental elements that must be present for a successful partnership to result. These elements can serve as a touchstone for directors to use to recreate their corporate partnerships. They are:

- **Vision**
- **Impact**
- **Intimacy**

When a board falls short in its duties, one or more of these elements has been corrupted. Unless a vital partnership exists between the board and the executive team, any efforts to develop the board will fall short. Worthy goals and good practices can and will be undermined by the lack of a sustainable partnership between the people involved. A deep sense of trust between the board and the executive team is the only viable foundation for good governance.

Building Partnerships:

Deliberate action is required by any company wishing to develop, evolve or enhance the essence of the partnership between the corporate executives and its board of directors. They must set aside time to deliberately attend to this effort. They must accurately assess the quality of their present functioning. They must take that dispassionate awareness and contrast it to what they want to accomplish with their partnership. Finally, they must take considered action to reduce the gap that exists between the current state of their relationships and their desired state.

Accurate self-appraisal requires considered, deliberate work. Less than half of all boards of directors have a board evaluation process in place. It can't be assumed that those who do have them are all doing it right. Are they tending to the right issues, are they getting better at what they've always done, or are they proactively developing their potential to do what needs to be done? Assessment can only be done in relation to a reference point of some kind. Boards must ensure that they are measuring themselves against the most relevant reference points for what they are trying to accomplish. This means going back and examining their status on the fundamental elements of their partnership with the corporate team. To be creative, we have to step outside of business-as-usual and reconsider what it is that we are about.

Vision Quest:

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In a successful, enduring partnership, vision must arise from a shared purpose. The goal may be to make money, but your purpose is about how you use what you have to produce goods and services for which others will pay. It is around the nature of this purpose that the partnership is built. In their 1996 Harvard Business Review article, “Building Your Company’s Vision,” Collins and Porras identify the purpose statements of a number of prominent companies. None of them state that their purpose is making money. When companies measure themselves solely on their ability to make money, they lose sight of their core identity. Think of Enron, Tyco or Global Crossings as examples. Indeed, CFO magazine has suspended its practice of recognizing the CFO of the Year, because their last several winners oversaw companies that are now bankrupt or in serious legal difficulties due to their accounting practices.

A board retreat, including key executives and even trusted outside advisors, can provide a starting point to revisit the group’s understanding of the purpose of the corporation. Time away for reflection, conversation and thinking together creates the opportunity for the individuals involved to reframe and articulate a common purpose (for the corporation and then, from that, the purpose of their board/ executive team) that is compelling enough to guide them as they move forward. Without this shared understanding, even the best-intentioned individual efforts can dampen or negate the purpose of the group. Strategies and practices are built from people’s assumptions about the purpose of the company, and when there are multiple understandings there is confusion and fragmented focus. The shared vision is the reference point for agenda setting and prioritization among diverse people working in a complex system.

Identifying the fundamental purpose of the company and the roles of the directors and executives required to fulfill it usually can’t be done in an afternoon, or in one sitting. Tending the vision requires authentic communication and conflicting ideas need to be shaped into a common focus over time. Tending the vision needs to become a conversation that is repeated periodically among the group as a whole. It is only in this way that individuals in groups form a deep understanding of and a commitment to a shared purpose.

Generating A Catalytic Impact:

Partnerships serve to create an impact that is unavailable to entities that act independently. The reason behind this is simple; two or more people, when operating in concert, have a stronger impact than one person acting alone. Through the partnership

that exists between directors and executives, it is possible to effect a more complete utilization of the organization's untapped potential to realize its purpose. Here, we are talking of a high level impact. The board can be essential in ensuring, for example, that a corporation's culture nurtures and sustains the integrity of its effort in everything it does. What is said, what is implied and what is done must be consistent and true to your purpose if you hope to achieve genuine peak performance. When we attempt to optimize corporate performance without this integrity, we are inviting manipulation, short-term thinking and duplicity. As the saying goes, "We rob Peter to pay Paul." When integrity is lacking, today's good results can't be sustained without further manipulation, shorter-term thinking and more duplicity in the next round. Eventually the house of cards that is built from this sort of maneuvering collapses. Typically, at that point, new management is brought in and the process begins all over again because the basic nature of the partnership---never examined---has not been addressed.

An effective partnership between the board and the company's executives is necessary to create sustainable impact. The company's strategies must be effective in furthering its purpose. The corporation must act to anticipate market events and adapt its practices to further its purpose. Results and capabilities must become self-supporting. In such a scenario, the board is an intellectual resource; it provides a credible outside perspective, and it is a source of unquestioned accountability. It is the shared purpose---not this quarter's numbers---that provides the necessary frame of reference for the board to play its part to best effect. The impact of a solid partnership is that the organization becomes more than the sum of its parts.

Creating The Intimacy That Nourishes Good Thinking:

When thinking of intimacy in this context, think of the idea of familiarity. People in the partnership need to know each other, need to be familiar with each other. They need to be able to think about the issues facing the corporation from each other's perspectives. Only then can they anticipate relevant issues and adequately recognize implications of the actions of the various parts on the whole.

In too many organizations, the board is too remote, with only cursory information about what's going on in the corporation at the executive team level. If the board is seen as a critical, demanding adversary, then the executive team develops a defensive posture in its relations with directors individually or the board as a whole. On the other hand, if there is a shared vision and mutually beneficial impact, there is less likelihood of executives dissembling, or failing to share pertinent contextual information.

Directors must insist on access to people, transparent practices and full disclosure. In turn, they must hold the CEO accountable, as a partner, for creating the open flow of information necessary for this data to be available.

Intimacy can be particularly difficult to create and sustain in today's corporate context. Attorney-client privilege, insider trading, SEC regulations and efforts to protect executive's images with board members can all conspire against the effort to build real intimacy. Because of these barriers, it is vital that board members create appropriate mechanisms for obtaining full disclosure. The barriers define the parameters of how we can do it, but intimate knowledge remains a must.

Intimacy requires time and contact. Some directors may reject this idea out of hand as too time consuming to be practical. However, finding a way to develop this intimacy is the very best defense a director has against malfeasance. The proper question isn't whether or not we should develop intimacy among the members of this partnership, it is how to best develop it in a practical way. The question "should we?" can be answered with a simple yes or no, but it doesn't lead us to a course of action. The question "how can we?" starts an on-going conversation that creates a process that leads to a solution.

Intimacy (like trust and partnerships) is not easily created. It's developed over time. We tend to see barriers melt when we come to know people and appreciate their circumstances. For a board, insulation and isolation from the troops is the most significant barrier to intimacy, because it prevents this familiarity from developing.

The first requirement in creating intimacy within an organization is commitment; the people involved must be committed to developing it. This commitment can't be faked for it requires specific actions taken over time to fulfill its intention. Such actions include free and ongoing conversations among all involved so that true familiarity can develop. For example, it's valuable for directors to pursue skip level interviews (e.g., talking with key managers below them within the management hierarchy) to truly understand the company's circumstances. On the other hand, choreographed social events between carefully selected executives and board members such as golf outings or the like won't cut it. Ensuring intimacy is one of the on-going conversations that must be given a position of importance in the considerations of the board.

One final comment is important here. Intimacy allows us to know what others know and understand and what they don't. Corporate strategies based upon inaccurate understandings of what executives/management understand and what they can do are doomed to failure. When executives engage in unethical practices to deliver results, they are saying, in effect, that they don't know how to generate the expected results in any legitimate way. If the board really knows the company and its executive team, it is less likely to engage in unrealistic strategies, no matter how appealing they may sound when developed in the boardroom. Intimacy is vital to the effectiveness of any board.

Conclusions:

For today's boards of directors to become truly effective in fulfilling their obligations, they must insist upon the presence of robust partnerships between themselves and their companies' executives. They must take the time and make the efforts required to build effective partnerships. By working in concert with their respective executive teams to address the critical issues of vision, impact and intimacy, they can create the frameworks necessary for ensuring that boards can be of service, both to their corporations and to society at large. It can be done, but not without work.