Boardcraft:

The essence of high-performing boards

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Governance: A minefield for the unwary

From hardly rating a mention in the popular press or polite society fifty years ago, public awareness of directors, boards, and something called ‘governance’ has blossomed in recent decades, and markedly so since the turn of the twenty-first century. Questionable practices and corporate failures of various kinds have seen boards become subject of interest and targets of criticism and disdain in the minds of the business media, regulators, and, increasingly, the wider public. Public companies and state-owned enterprises have attracted most attention, but private companies, private equity funds, family businesses, and social enterprises have not been immune from criticism. Media and public attention seems to be well-directed, for many contributing factors can be traced back to the boardroom.

Reputable research suggests directors do themselves no favours: behavioural flaws such as hubris and overconfidence, a faulty moral compass, dysfunction and lack of transparency amongst directors and with management, narcissistic or assertive chief executives who ‘take over’, and, tellingly, weak engagement and ill-informed decisions by the board are commonplace.

Boards are not as knowledgeable as they believe they are either. Only one in six directors understands the business of the business, the competitive landscape, emerging trends and disruptions, and the main sources of risk and opportunity—despite two-thirds of directors claiming to possess such knowledge. Three-quarters of directors say the company’s strategic aims are appropriate, and that the board not only understands the corporate strategy but is fully supportive of it. And yet, when asked, fewer than one in four directors can describe the company’s strategy and strategic aims. My own work indicates about one in twenty boards and their executive teams are fully aligned in relation to the purpose of the company. Five per cent! Most directors and executives have an opinion, but consistency and alignment across the group is rare.

What is more, the term that describes the board’s work (corporate governance) has become both hackneyed and misused, to the point of being invoked as a perpetrator or panacea for all manner of corporate activity and malaise. That many directors do not seem to understand their duties well exacerbates the situation.

And yet guidance is not in short supply. Thousands of books, research reports, articles and blogposts have been published, about boards, corporate governance codes, board structures and compositions, best practices, and a miscellany of related topics. Amidst what is now a cacophony of ideas and recommendations, confusion reigns—over what corporate governance is and how it might be practiced, the role of the board, and the purpose of companies in society. Some directors privately acknowledge this: that the multiplicity of conflicting perspectives and arguments promulgated by institutions and consulting firms has left them confused about their role and contribution. But they continue on.

It is little wonder regulators are active, investors and other stakeholders are concerned, and public confidence is low!

Rethinking board work

If boards are to become more effective in their mandate (to ensure the enduring performance of the company), the orthodoxy that has dominated the discourse over the past few decades needs to be rethought; spurious recommendations that appeal to symptoms or populist ideals need to be set aside; and, the power games, self-centred motivations, and ineptitude apparent in some boardrooms need to be rectified too. If better outcomes are to be achieved, a Copernican change is needed.

In sport, teams that focus predominantly on the rules of the game rarely win, for rules define boundaries, not outcomes. The correspondence to boards and governance is direct: statutes, codes, and 'best practice' recommendations are, essentially, rules. To focus strongly on them, without also considering the purpose of the board or its mandate, is short-sighted.

Bob Tricker, a doyen of corporate governance, made this plain years ago: he argued the purpose of the board is to govern, which includes overseeing the formulation of strategy and policy, supervising executive performance, and ensuring corporate accountability, in accordance with prescribed duties. Given board work is an activity, it is reasonable to conclude that a board's effectiveness is a function of what it does, how the directors work together, and the outcomes that follow—and not the structure and composition of the board *per se*. Directors take their eyes off this distinction at their peril.

The message is clear: if better outcomes are to be achieved, a different approach is necessary. Directors need to understand their role, discern what matters, and practice accordingly. They also need to make sense of incomplete data from multiple sources, having lifted their eyes to understand the marketplace, geopolitics, competitor activity, stakeholder expectations, technical innovations, disruptions, and human behaviours—all of which contribute to what is demonstrably a complex and dynamic operating environment—and, amidst it all, think critically and make informed decisions. Clearly, great concentration is required: the role of director is not for the faint-hearted!

At this point we should remind ourselves that 'board' is a term of convenience; a collective of directors required to act in the best interests of the company. This sentence defines what a board is (a collective of directors) and does (make decisions in the best interest of the company, in accordance with duties specified in law). However, the means by which this is achieved is not defined in law: directors are free to select a structure and make decisions based on the prevailing conditions they face (or perceive they face).

As the operating context is both dynamic and complex, a singular 'best practice' approach is an exercise in futility. Instead, a fit-for-purpose approach is needed, whereby the board and management work harmoniously together to achieve agreed goals. And therein lies a clue to resolving the problem: that the problem is social not structural, suggests the solution is probably social as well. Factors worthy of consideration include:

Ownership: The board is the apex decision-making authority in every company, meaning the board is responsible for making the biggest decisions. Thus, if the board is to have any influence over performance it needs to take responsibility and exercise judgement, directly, for the big calls.

Purpose: Agreement on why the company exists is crucial if performance is to be achieved and sustained over time, for it provides the touchstone against which decisions can be made and performance assessed.

Strategy: Strategy is the course of action required to achieve the agreed purpose. While responsibility for strategy execution lies with the CEO, the board needs to be involved in the formulation or refinement of strategy in some way, together with management, and the board needs to ensure strategic objectives are achieved and expected benefits realised.

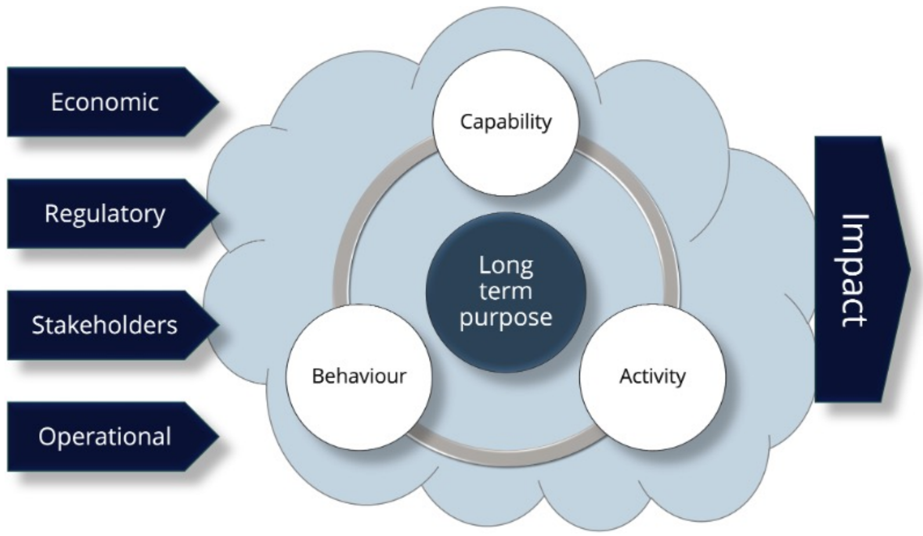
Effective board practice: This is the biggie. Some commentators claim board effectiveness is entirely a matter of luck. Given the socially dynamic nature of the board, complexities of the wider operating context, and that management operates the company not the board, this view is naturally appealing. But it is wrong. Board influence from and beyond the boardroom is possible, if the board focuses on the 'right things.'

Fortunately, robust guidance to help directors work together well, and ensure steerage and guidance is effective, is available.

A framework for better contributions

If boards are to fulfil their governance responsibility well, meaning, actively take the company into the future in a safe and sustainable manner, a clear sense of purpose and coherent enabling strategy, and a sound understanding of the role of the board and a commitment to effective practice is essential.

Long-term observational studies of boards in action are revealing: effectiveness is the product of what directors bring (capabilities), what the board does (activity), and how they work together (behaviour), not what the board looks like. The *Strategic Governance Framework* outlines how functional boards can 'perform' corporate governance, meaning to govern effectively and pursue high performance outcomes. It explicitly incorporates director capabilities and underlying behaviours necessary if the board is to exert influence beyond the boardroom, given the long-term purpose of the company, and prevailing and emerging externalities. As such, it forms the core of the *Boardcraft philosophy*, an holistic approach to governing with impact.



The significance of this framing (a multi-faceted social interaction activated by a competent and functional group of directors) is that it embodies the seminal understandings of shareholder–board–management interaction and corporate governance that have been lost amongst the cacophony of recent diversions and embellishments. Each of the major elements are discussed below.

Long-term purpose

Purpose provides the contextual and motivational 'North Star' reference point, towards which the board and management directs effort; strategic management tasks (strategy development and strategic decision-making) are allocated, resourced, and performed; agreed performance goals are pursued (via management actions including implementing board decisions, operating the company, and executive control); and performance is monitored, verified and reported (internally and externally, to shareholders and regulatory authorities), in accordance with agreed priorities and statutory requirements.

Director capabilities

The capabilities necessary if a board is to govern with impact include deep sector knowledge; technical expertise; business acumen; and, maturity and wisdom. Ideally, about half of the board should possess deep sector knowledge. This will ensure the board is suitably equipped to ask relevant sector- or business-specific questions. The technical expertise requirement will depend on the type of business, but could include deep legal, commercial, technology and innovation, international business development, project management, and cyber and AI capabilities. Maturity and wisdom is highly valuable when grappling with complex topics and judgment is needed, especially when considering dilemmas.

Board activities

The activities of the board are those described in the Learning Board Framework (see *The fish rots from the head,* by Bob Garratt). This proven model is founded upon the four core principles of corporate governance—namely, set direction (corporate purpose and strategy); ensure adequate capability (financial and non-financial resources, leadership, culture); oversee performance (supervise management, verify performance against strategic goals, ensure operations are within with statutory and regulatory bounds); and provide an account (to shareholders and legitimate stakeholders).

The way these universal principles are enacted is, necessarily, idiosyncratic. The board's role is to understand the operating context, and to make decisions consistent with the overarching objective and agreed strategy, within the bounds of what is legally acceptable. Such is board practice.

Behavioural characteristics

The final element concerns the way directors act and interact. Board effectiveness is dependent on five underlying behaviours (how directors act and interact), as summarised below. If any one or more of these behaviours is not expressed, the board's effectiveness will be compromised. High performance may still occur, but not because of any contribution by the board.

Strategic competence: The use of cognitive skills to exercise sound judgement while considering information and making decisions—individually and collectively. Big picture, long-term, and inquisitive thinking, and a strategic mindset, are particularly important if the board is to be strategically capable.

Active engagement: Directors need to prepare well if they are to make informed decisions, monitor the implementation of prior decisions, and verify performance effectively. Indicators include adequate preparation before board meetings; close and supportive interaction between directors during meetings (read: teamwork); and a framework within which to make strategic decisions (essentially, corporate purpose and approved long-term strategy).

Sense of purpose: The motivation and resolve to contribute to the work of the board (setting strategy, making strategic and other decisions; monitoring and verifying performance, both against targets but also within legal and regulatory boundaries; application of controls; and providing an account) with the agreed long-term purpose of the company as a guiding principle.

Collective efficacy: The ability to make informed and contextually-relevant decisions, as one. A board's performance in this regard is a product of not just shared knowledge and skills, but also cooperation and cooperation; empathetic interaction and vigorous debate in the boardroom; and, situational awareness and emotional intelligence, as various perspectives are explored and debated.

Constructive control: Decisions made in response to various inputs should be consistent with the agreed strategy and goals. The board's mindset should be that of a coach, guiding and supporting management, rather than behaving punitively—the likes of which are more commonly associated with boards.

Implications for boards

Conceptually, governance is both straightforward to comprehend, and its definition stable (the root word is kybernetes: to steer, to guide, to pilot) and core principles universal. However, the practice of corporate governance (how boards go about their work) is inherently complex and dynamic—especially when the incessant march of innovation, effects of disruptive forces, and miscreant motives and behaviours of some directors are considered.

The *Strategic Governance Framework* provides an alternate pathway for boards intent on governing with impact and realising the full potential of the company they govern. The importance of the behavioural dimension, in particular, cannot be overstated for it not only recognises the board is a social group, but it provides a foundation for directors to interact well and for the board to make forward looking, informed decisions in a timely manner. Unsurprisingly, the core elements are not dissimilar to those of effective teamwork (compelling direction, enabling structure and supportive context) and proven models of mission attainment (purpose, strategy, values and behaviour standards).

However, the close working proximity of the board and management that is a feature of the *Strategic Governance Framework* is not without its challenges. Complex group dynamics and the inherent difficulty of separating shareholder, board and manager roles (more so in smaller shareholder-managed companies or boards with so-called executive directors) can have a negative impact on decision-making objectivity.

Similarly, the temptation to inadvertently confuse the roles of the board (corporate governance) and managers (business operations including strategy implementation), embrace operational detail, and shorten the strategic horizon remain very real challenges for directors around the world—as became patently clear during the Covid pandemic.

Early agreement on the purpose of the company, strategy, organisational culture, terminology, division of labour between the board and management offers a much-needed foundation upon which to assess options, make strategic decisions, and pursue high performance outcomes. Directors also need to ensure they thoroughly understand both the business they are charged with governing, and the wider operational and strategic context within which the company operates, so their contributions are both contextually relevant and constructive.

In addition to reading and understanding the contents of board papers, directors of high performing boards say they maintain a habit of reading widely—about emerging ideas, trends and technologies, in particular—to ensure a sufficiency of knowledge about the market the company they govern operates in, trends and disruptions, and potential risks and opportunities.

Ultimately, effective steerage and guidance requires the board to be discerning and committed to the task at hand, and use reliable governance practices in pursuit of better outcomes, not spurious (often discordant) recommendations that appeal to symptoms or populist ideals. Increasing numbers of boards are starting to realise that material benefits are available if they act in this manner. The *Strategic Governance Framework* introduced here provides a useful option for boards to consider, as they strive to realise the full potential of the companies they govern.

About the author

Dr. Peter Crow is an internationally-respected board director, advisor, educator, and creator of the *Boardcraft* philosophy, devoted to helping boards around the world govern with impact. He holds a doctorate in corporate governance and strategy, and is a chartered director. See petercrow.com.