



## Board effectiveness: people issues are at the heart

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Running an effective board in a private, public or voluntary sector organisation is not easy but has the potential to have a major impact on the success of the whole organisation. The Financial Reporting Council in the introduction to its updated Corporate Governance Code states that:

*'The challenge should not be underrated. To run a corporate board successfully is extremely demanding. Constraints on time and knowledge combine with the need to maintain mutual respect and openness between a cast of strong, able and busy directors dealing with each other across the different demands of executive and non-executive roles. To achieve good governance requires continuing and high quality effort.'*

Heidrick & Struggles' report on board effectiveness highlights that 'it is much harder to be a director now than it was ten years ago. Increased accountability and scrutiny, multiple media and stakeholder pressures and shareholder activism are all contributing to making the job a lot more onerous and risky.'

Each sector brings its own unique challenges, priorities and sets of stakeholders, resulting in different agendas, but there are also many commonalities in terms of good governance and board effectiveness. And, as with the rest of the organisation, if not more so, it is important to review all boards' effectiveness and performance from time to time in an evidence-based and transparent way.

When considering what to review, research by The Board Group provides some pointers. They identified a

number of causes of board failure, which can usefully be grouped into four areas:

### Board focus

- Lack of strategic focus and an inability to anticipate the future.
- Inability to align with shareholders or deliver their desired results.
- Too much meeting time spent on reporting and not enough time on addressing critical issues.

### Board processes

- Lack of good, timely operating and strategic information leading to inefficient meetings and uninformed decisions.
- Infrequent or irregular Board meetings.
- Low levels of preparedness for meetings by management or the Board.

### Board composition

- Experience and skills on the board do not match business' strategic drivers.
- Too many insiders/friends on the board.

### Board interaction

- Board meetings that are not respectful and collegial.

- CEO not committed to the board process or to implementing board recommendations.

Turning the question round, Eversheds asked board directors what factors are important to the successful running of a board and received the following responses:

Composition of the board	77 per cent
Effective chair	50 per cent
Challenge	41 per cent
Collegial environment	29 per cent
Executive/non-executive relationship	23 per cent
Time commitment	15 per cent
Effective executive	15 per cent
Defined roles	15 per cent
Size of the board	11 per cent
Appropriate levels of information	11 per cent

It is evident that there is a degree of consistency about what matters coming from both perspectives. Beyond the clear importance of having the right mix of people on the board, the next four most important factors in the Eversheds research are all about the working relationships that exist within the board: the effectiveness of the chairman; the degree of challenge provided by the non-executives; the collegial environment, and the relationship between the executives and non-executives.

In this context, Patrick Lencioni's The Five Dysfunctions of a Team provides a useful framework to think about the potential pitfalls in running an effective board:

- Absence of trust – the fear of being vulnerable prevents the building of trust.
- Fear of conflict – the desire to preserve harmony prevents meaningful conflict.
- Lack of commitment – lack of clarity or buy-in prevents people from making decisions they will stick to.
- Avoidance of accountability – the need to avoid interpersonal discomfort prevents people from holding one another accountable for performance and behaviour.
- Inattention to results – the pursuit of individual goals and personal status erodes the focus on collective success.

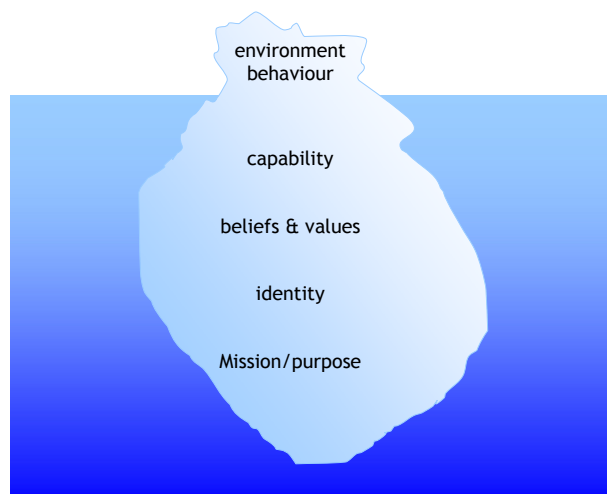
One of the interesting questions about a board is whether they are really a team who are working towards a common set of goals, and how many boards

actually think of themselves as such. Do they apply the same disciplines and approaches to their own effectiveness as they would to other, executive teams in their own organisations. Clearly, the non-executive role provides a different dimension to the relationships but we would argue that any board is indeed a team and should not neglect the fundamental basics of team effectiveness. Through the lens of Lencioni's framework, the ability of the chair and non-executives to be able to challenge whilst building trust with the executives is critical to an environment in which it is possible to explore issues openly and constructively without fear yet still achieve accountability and a focus on results. The chair, in particular, needs to keep the focus on collective results, force clarity and closure, and confront difficult issues.

At a recent workshop on board effectiveness, run by IES and Eversheds, one delegate observed that in their venture capital-backed organisation there was not a collegial atmosphere at board meetings and this raised the interesting question as to whether non-executives and executives will always have common goals. At a deep level it seems self-evident that they must, although they may not all agree with the specifics of these goals on an individual level; just think of the tensions in an NHS Trust or Local Authority between those determined to give the best service to their service users and those responsible for ensuring that the service remains financially viable. At the deep level they both want a financially viable and sustainable service but they have different priorities when making specific decisions.

A model that we have found useful in surfacing some of these challenges is the so-called Iceberg or Levels of Change model.

### The Iceberg or Levels of Change model



Source: IES, 2006

All that is actually visible to the outside world is the environment of board meetings and the behaviour of board members. Much deeper under the water are individuals' beliefs about how the world works and what is important as well as, even deeper, their beliefs about the mission or purpose of the organisation, the board and themselves. Dialogue to explore a common purpose and generate commonality about what is important can lead to much more effective boards. If there are remaining or hidden differences at these levels, there is much more likely to be unresolved conflict and lack of commitment.

Providing evidence about what is actually happening in board meetings is an important step in the process of understanding what is really going on (as opposed to what participants collectively believe) and can be helped by the presence of an outsider. As an example, in a recent project, IES evaluated the effectiveness of a board development programme which sought improvements in patient quality, safety and experience that ran within the West Midlands during 2009/2010.

An analysis of the content of one board in the region before the development intervention yielded the following word cloud (in which the size of the word reflects the frequency of its use).

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**The top 100 words used by the Trust board: pre-programme**



Source: IES, 2011

This simple analysis and visualisation clearly highlights where the focus of the board was, whilst the word cloud below shows how this shifted after the intervention.

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**The top 100 words used by the Trust board: post-programme**



Source: IES, 2011

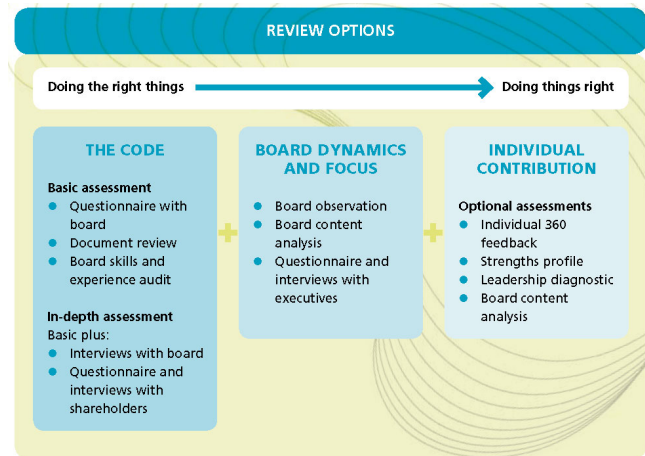
Clearly, there is a move towards a focus on patients and people, and away from commissioning, strategy and report. Simply holding up a mirror to a board can help them understand what they are really spending their time on.

### Reviewing board effectiveness

The Financial Reporting Council's Governance Code suggests that 'the board should undertake a formal and rigorous annual evaluation of its own performance and that of its committee and of individual directors'. The Code also includes a new provision that 'evaluation of the board of FTSE 350 companies should be externally facilitated at least every three years'. Whilst the FRC is focused on private sector organisations, it seems reasonable that principles of good governance should apply equally, if not more so, to public and third sector organisations.

From the preceding discussion, any review should obviously cover board composition issues and also fundamental processes of operation and engagement with stakeholders. This is where the core focus of the FRC code is, to ensure that the basics of good governance are in place. It seems clear though that to become a highly effective board any review should also consider the dynamics of what goes on in board meetings both in terms of the interaction between members but also what they spend their time on. A review can go even further to look at the role of individuals in the team and their personal contribution (including, for example, word clouds for individuals).

## Framework for different levels of review



Source: IES, 2011

The figure above sets out our framework for different levels of review, which can be tailored to the specific needs of an organisation in terms of breadth and depth.

Some of the requirements of the assessment are relatively straightforward and can be addressed using simple 'tick box' and questionnaire approaches, whilst others are more complex and require skilled observation and assessment.

Whilst board reviews are a formal assessment, we believe it is important to remember that it is about improving performance and so should be conducted in a supportive and developmental way to ensure that participation is full, open and honest.

## References

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Further information about IES's approach to Board Effectiveness can be found at:

[www.employment-studies.co.uk/boardimprovement](http://www.employment-studies.co.uk/boardimprovement)

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## About IES

IES is an independent, apolitical, international centre of research and consultancy in human resource issues.

IES aims to help bring about sustainable improvements in employment policy and human resource management. We achieve this by increasing the understanding and improving the practice of key decision makers in policy bodies and employing organisations.

We believe that HR can make a significant impact on the success of organisations of all types. In order to help bring this about, we help organisations:

- decide what they want HR to achieve
- identify what high performing HR people are like
- design and deliver bespoke development programmes for HR people
- evaluate how they are progressing against their goals

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