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Building the High-Performance Board

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Abstract: *What is the purpose of having the Board of Directors for a company? Not many companies ask this fundamental question. In most companies, the board has become passive, formal and ceremonial. How to make the board more active and creative, which means making it into an important organ of the company that contributes positively to the growth and progress of the organisation? This article examines this question based on some of the emerging perspectives, insights and best practices in corporate governance and also some uniquely Indian perspectives on the subject.*

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I Beyond The Ceremonial Board

One of the positive results of a spate of scams is a constructive rethinking on the aims, values and methods of corporate governance. The progressive minds in business and management are questioning the function and purpose of the board, which in most companies have become a more or less ceremonial organ. As David A. Nadler, a consultant and researcher on corporate governance writes in Harvard Business Review, in most organisations the board proceedings have become "choreographed ceremonies" and elaborates further on the present condition of the boards:

"At many companies, directors routinely endure a parade of precisely scripted presentations, occasionally followed by perfunctory discussion and the inevitable vote to ratify management's recommendations. CEOs, if so inclined, can overload the agenda with so many show-and-tell segments that they crowd out serious questions, troublesome concerns, or authentic debate." (1)

If a company wants to move and progress beyond the ceremonial board to a performing board which makes positive contribution to the progress and performance of the organisation, what it has to do? The directors of the board has to act and function according to the literal meaning of the word "director" which means they have to accept the responsibility for directing the course and destiny of the company. David A. Nadler calls such boards as "engaged boards" which are:

- Seats of challenge and enquiry that adds value without meddling and empowers the executive team without abdicating its own leadership responsibility.
- Sources of insight, advice and support on key-decisions to the CEO and management
- Dynamic organs of top management that oversees CEO performance, make the CEO more effective but not all-powerful.

Let us now examine these features of the engaged board in the light of some Indian images and perspective. At present in most companies the relationship between the CEO or management and the board is somewhat similar to that of the Prime Minister or the Parliament with the President in our modern Indian constitution. The President is an honorary figure head who can't do anything more than ratifying the decisions of the Prime Minister who can be regarded as the CEO of the nation.In a performing or engaged board, the relationship between the board and the CEO or management would be somewhat similar to that of Sri Krishna and Arjuna in the battle scene in Mahabharata. In this image of the ancient Indian epic, Arjuna is the charioteer who holds the reign of his chariot and drives the chariot. And Sri Krishna is the director of the chariot, giving wise counsel to Arjuna, the charioteer, helping him to take the right decisions, correcting him when he goes wrong, bringing clarity to the path and goal of the journey. The other Indian example is the relationship between the king and the Council of Ministers in ancient Indian polity. There is much misunderstanding on this subject created by western scholars who branded Indian polity as "oriental despotism" of the royal authority of the king. But in actual practice, the King in ancient Indian polity is only a constitutional monarch and a copartner in governance with other political institutions. The most powerful among these institutions is the Council of Ministers. This Council of Ministers in ancient Indian polity was not a democratic institution but an elite body made of people who are respected for their wisdom and character. Megasthanese, the Greek traveller describes the nature and function of this ancient Indian institution as: "Smallest class interms of numbers but most respected because of its high character and wisdom of its members." Thus, the main function of the Council of Ministers is to provide wise counsel to monarch in ruling the kingdom.The King, who is the CEO of the kingdom, had sovereign decision-making powers. But in Indian political theory and practice, the King has to consult the Council of Ministers in all major decisions and in general he cannot go against the advice of his Ministers. As K.P. Jayaswal states in his pioneering work on Indian polity: "It is a law and principle of Hindu constitution that the king cannot act without the approval and cooperation of the Council of Ministers." (2) Similarly, Sri Aurobindo, writing on ancient Indian polity states, "The power of the king could not with impurity defy the opinion and will of the ministers and the council." (3) The outer form of this Indian approach to governance may not be suitable to modern corporate governance. But the concept and principle of a council of wisdom, character and competence to advise the king and give him the right direction in governing his kingdom, has a living relevance for contemporary governance.Can the Board of Directors of a Company be built into such a council of higher guidance to the CEO? This is the main question which will be explored in this article.

The Self-shaping Board

A human group can only be as good as its members. If a board has to become a source of character, wisdom and competence to management, its members have to possess these qualities. How to create such a board and who can do it? The board is the apex of leadership in a company and therefore it cannot look up to something above itself. Any change or transformation in the board has to come from within itself through Self-analysis, self-governance and self-transformation. The board has to form itself into a close-knit team and arrive at commonly accepted standards for choosing its members and defining their roles, responsibilities and tasks. The best boards try to do this by conducting a thorough analysis of the competencies required for high-quality board leadership and matching them with corresponding roles. Here is an example from Continental Airlines. *The board of Continental Airlines thoroughly analyzed the company's business issues to determine what skills and experience it needed. Directors zeroed in on knowledge of the airline and travel industries, an understanding of marketing and consumer behavior, access to key business and political contacts, and experience with industry reconfiguration.The board then defined the capabilities and qualities expected of all directors, such as independence, business credibility, financial expertise, confidence, and teamwork. To be as representative as possible, it took into account directors' knowledge of geographic markets—particularly their knowledge of key Continental hubs—CEO experience, leadership in the business sectors, and gender and ethnic diversity.Next, the board assessed all of its directors and mapped their skills, experience, and backgrounds against the new criteria. The gaps became fodder for hyper targeted recruitment profiles. In the end, several board members voluntarily stepped down to make way for new directors who had the capabilities Continental needed to compete successfully. (4)* In assessing directors, professional knowledge, experience and skill has to be an important factor. Some of the surveys lists the following parameters which are useful for assessing the competencies of directors and matching them with appropriate responsibilities and roles.

- ❖ Detailed knowledge of company's industry
- ❖ Understanding of finance and public-reporting experience
- ❖ Understanding of company's key technologies and business practices
- ❖ Expertise in global business issues
- ❖ Potentially valuable external contacts

However in the West, even in the best boards likes that of Continental Airlines the primary emphasis is on the professional competence of directors. But in the new corporate and world-environment shaped by interdependence and complexity and globalisation, where factors like ethics, values, corporate responsibility and environmental sustainability are gaining increasing prominence professional competence alone is not enough to provide effective leadership. Here comes the importance of Indian perspectives we have discussed earlier, with its predominant emphasis on wisdom and character. In the future world an effective board must display character and a source of values and wisdom to top management. This Indian idea is now beginning to be recognised by the modern corporate mind. For example, Jack Welch the famed former CEO of GEC says, "In the final analysis, best directors share four very simple traits: good character, common sense, sound judgement─particularly about people—and courage to speak up." (5) All these four traits are expressions of character and wisdom. However let us look at the concept of character and wisdom in the light of a deeper perspective. We may define wisdom as insight which reason or professional competence or experience cannot give. In the modern corporate context, we may consider the following qualities as wisdom:

1. Holistic perspective which means the ability to view each thing as part of a larger whole, in relations with other things and with the whole.
2. Holistic decision-making which means the ability to assess the immediate and long term consequences of decision for the people, organisation or the society.
3. Insight into future possibilities, unmet needs and unmanifest potentialities.
4. Sensitivity to higher values like truth, beauty and goodness and the ability to internalize them into one's own self and implement them in the outer life.

5. Ability to judge the character, competence and the hidden potentialities of people.
6. Dynamic intuition into the underlying or hidden patterns behind the changing facts, appearances and events of life.

And character or to be more specific, good character, may be defined as a personality or individuality made of following qualities:

1. Harmony of inner being and outer life or in other words between thought, feeling, will, action and behaviour
2. Someone who governs her lower self made of her physical, sensational and emotional being by her higher nature made of her rational, ethical and aesthetic being.
3. Inner strength made of firm will, persistence and courage in living and upholding her values, ideals or principles under all circumstances and against all opposition, difficulties and obstacles.

Such individuals with wisdom or character may be difficult to find in the corporate world. But they need not be necessarily from business. They can be from spirituality, art, civil society, literature, philosophy, science, public administration. In fact two or three individuals in the board from outside the corporate world gives a multidisciplinary orientation to the board and brings a multi-angled perspective to decision making.

Interestingly, most of the latest research on teamwork indicates such a cognitive diversity made of multiple view-points and perspectives enhances the collective intelligence of a team or the group. An important part of the diversity is inclusion of woman. Here again new research has found inclusion of woman in top management enhances the performance of the company. As a report on The Economist states:

"In 2004 Catalyst looked at the performance of Fortune 500 *companies and found that the group with the highest representation of women in top management also had a much better return on equity than those with the lowest. Three years later it examined the boards of directors of the same group of companies and again found that those with the most women were, on average, more profitable and more efficient than those with the least. Companies with a 'critical mass' of women directors—at least three—did better than those with smaller numbers."* (6)

So in choosing the Board of Directors the qualities of wisdom and character have to be included along with competence in self-assessment on the lines indicated in the example of Continental Airlines, which we have described earlier.

Creative Participation in Decision-making

A performing board must be actively engaged in and provide creative support to top decision-making. In an article in Harvard Business Review, Michael Useem, Director of Wharton's School Centre for Leadership and Change Management, discusses this issue in some detail. The first requirement is to have, "decision-protocol" which defines with clarity and precision what are the decisions which needs to be considered by director and others which can be left to the management. As Michael Useem explains the idea with examples:

"Many large companies explicitly identify which decisions should be made by directors and which should be made by executives. Although this information is typically confidential, HBOS, one of the UK's largest financial services companies, has made its "matters reserved to the board" public. Another company follows a highly detailed, 30-page "delegation of authority" that specifies a host of decisions that must be brought to the directors for final resolution. A third corporation uses a protocol with 194 rules detailing director decisions on financial reporting, risk management, human resources, competitive strategy, acquisitions and divestitures, technology, and governance and compliance. After reviewing a decade's worth of board minutes, the chief executive instituted this process to bring order to what he saw as a dangerously ad hoc approach to determining which decisions the directors would make and which ones would fall to the managers."(7)

However while most of the financial, legal and administration decisions can be more easily defined, many other decisions which belong to what we call as "strategic" are difficult to be standardized into a formula. For dealing with such decisions, Michael Useem provides the following useful perspectives which are worth pondering over by the boards:

- Large-impact decisions which are likely to have a substantial impact on the future of the company have to be considered by the board.
- Decisions related to the core values of the company even if the financial implications are small, have to be referred to the board.
- Directors remain vigilant after making the decision, following it up with management to ensure they are effectively implemented.
- CEO and management must make a conscious effort to provide the needed information in right quantity and quality to the directors to make effective decision. Both too much and too little information are obstacles to good decision-making. On the part of the directors, they must emphasise and insist with the management to provide the right kind of information.

- Apart from formal board-meetings, there must be more informal meetings and discussions among directors and the CEO, which can help in bringing greater clarity and focus to the formal board proceedings.
- The agenda of board meetings must be simple, clear and precise and arranged according to importance and priority so that discussions are focused and not lost in trivia.

We would like to add two more decision-factors which should not be let entirely to the executive but need to be considered by the board. First are the decisions which involve ethical dilemmas created by clash of values. Second are those which has a substantial impact on human and societal wellbeing like for example downsizing.

The other important issue in directorial decision making is the process, approach or methodology for arriving at the decision. The board of director is a human group and any group to be effective has to become a harmonious team. According to Jeffrey A. Sonnenfeld, there are three factors which make a great directorial team: Respect, Trust and Candour which means honesty and frankness in expressing one's opinion. As Sonnenfeld explains his article in Harvard Business Review:

"It's difficult to tease out the factors that make one group of people an effective team and another, equally talented group of people a dysfunctional one; well-functioning, successful teams usually have chemistry that can't be quantified. They seem to get into a virtuous cycle in which one good quality builds on another. Team members develop mutual respect; because they respect one another, they develop trust; because they trust one another, they share difficult information; because they all have the same, reasonably complete information, they can challenge one another's conclusions coherently; because a spirited give-and-take becomes the norm, they learn to adjust their own interpretations in response to intelligent questions." (8)

Mutual trust and respect are essential for building an effective team. However for a lasting human bonding these qualities should not be merely mental or professional but have to be vitalised by heart's feelings of mutual goodwill and empathy. This requires more personal, informal or nonprofessional interactions among team members. For example in the corporate life of China relationship between people or with clients are not purely impersonal and professional as in the west but also personal where the families of individuals are also included in interpersonal relationship. Similarly with the quality of candour. In the West, candour means aggressive debate, vigorous questioning, clash of opposing view-points and challenging of others opinions. This kind of free, combative and swashbuckling play of vital individualism is regarded as good and healthy in the west. As Sonnenfeld states:

"Perhaps the most important link in the virtuous cycle is the capacity to challenge one another's assumptions and beliefs. Respect and trust do not imply endless affability or absence of disagreement. Rather, they imply bonds among board members that are strong enough to withstand clashing viewpoints and challenging questions."(9)

This may be good for the highly rajasic western culture and temperament. But in India, with her more sattwic temperament, we have to build a culture of teamwork with more calm and less storm. The Indian approach to teambuilding has to be based on calm, equanimity and a willingness to understand the other person's viewpoints rather than challenging it. There can be debate, questioning and disagreement but a fiery assertion and clash of vital egos is not the most effective way to do it. Matured discussion pursued in an atmosphere of calm understanding with a will for the common good of the people and the organisation is perhaps a better approach to arrive at the right decision in a group than stormy debates. For, deeper insights can come only in a calm mind. Here is an example of collective decision-making based on these Indian principles:

"In the thick of negotiations to purchase New Age ice cream maker Ben & Jerry's, Terry Mollner, a founder of the Calvert Social Investment Funds who is trying to buy the company-calls a time out. At this point people are ready to give up, walk out and end the discussion over a deal breaker issue. Mollner invites to the table of tense, polarized people to be silent for a few moments and suggests that everyone ask themselves, 'What is the truth here? What is the highest good for all?' He then opens the floor to anyone to speak. One by one people lean forward and restate their position in a way that accommodates the other side. The negotiations move forward. Mollner repeats the ritual three times during weeks of negotiations, each time achieving the same breakthrough. (10)

Monitoring the Integrity of the Organisation

Jack Welch, the wellknown CEO of GEC, says in his best-selling book "Winning" that one of the main functions of the board is to "gauge the integrity of the company" and in this integrity watch-dog role, "that boards can make a real contribution."

But what is exactly integrity of a company? There are two dimensions to the integrity of a company: professional and moral. Professional integrity means harmony between the governing ideal of the organisation and its strategy and actions or in otherwords how effectively the vision, mission and values of the company are lived or translated into action, behaviour and results in every activity of the corporate life. One of the main functions of the board is to keep a close watch over this professional integrity of the company. Jack Welch regards this role as an important function of the board which means to "Monitor the mission of the company? Is it real? Do people understand it? Is it being executed? Can it win?" (11)

A.K. Talwar, a highly respected Indian banker and former Chairman of State Bank of India, provides some more useful perspectives. According to Talwar, the Board of Directors must review the following actors:

- ❖ Variations between budgets and actuals and reasons for the same
- ❖ Financial health of the company and its long-term fund requirements
- ❖ Marketing strategy, technological improvements carried out, organisational structure etc. and compare them with the latest international standards or developments.
- ❖ Long-term plans of the company, like for example, 5-year or 3 year rolling plans, along with the short-term yearly plans
- ❖ Market trends, product mix, competitor activities, capital investment, growth areas in the long-term plan and detailed budget and cash flow in the yearly plan. (12)

The moral integrity of company means upholding some basic and universal human values like honesty, truthfulness, transparency, justice, fareness, compassion in all actions, behaviour and transactions of the company with its stakeholders like employee customers, suppliers, government and the community or society. A performing board must keep a watchful eye on this moral quality of the organisation. Whenever or wherever there is violation or dilution in the moral fiber of the organisation, the board must act firmly to set it right.

And finally, sustaining the professional and moral integrity of the organisation requires right kind of leadership. Ensuring the quality of leadership is a crucial responsibility of the boards. This requires much more than choosing or evaluating the CEO or succession planning which are some of the well-recognised function of the board. The board must pay equal attention to ensure that people with right competence and character are in leadership positions in every vital function of the organisations like for example finance or marketing and management is taking the right steps to groom the future leaders. This brings us to the question how to do this task of monitoring the integrity of the company? It cannot be done by sitting in the board room and talking about it. The directors must interact with every member of the executive team. They have to make uninformed visits to the work-places of the company from time to time and talks with the managers and employees. Here again Jack Welch is perceptive when he says that directors of a company "Should know the top management team as well as they know their colleagues" and "visit the field operations and conduct meaningful conversations with people at every level." (13)

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