

HOW CAN BOARDS BE BETTER TRAINED?

“Performance appraisal for individual directors, as well as boards, is an idea whose time has come”

Carter and Lorsch, Back to the Drawing Board. HBS Press.

And not before time, if boards are to be better trained.

Training and purpose

In the sporting world, teams are trained towards a clear purpose, whether their goal is to win matches, league titles or championships. The goal is clearly defined, the team members are assessed in terms of their skill levels, and the team’s overall competence is evaluated in the light of its ability to achieve the desired goal.

Rigorous measured training of individual athletes and the team is implemented as one of the critical success factors in overcoming the efforts of competitors. The training itself focuses on skills development, the enhancement of behaviours, and forming the team into a cohesive unit capable of exemplary performance.

During training, the coach takes careful note of performance measurement metrics such as sprinting speed, stamina, recovery ability, ball control, positioning, teamwork and even tactical understanding. Possession of these skills may get the player a place on the team; but critically, when the game is on, none of these input evaluations matter any more.

The only things that matter for measurement in achieving the goal are outputs and behaviours – number of goals scored, tackles made, yards gained, perseverance of effort, and points won; these are the contributions that secure the player’s place for the next contest. The ultimate measurement appraisal is how one actually plays, which is starkly articulated in the sporting truism “you are only as good as your last game!”

The fundamental purpose of training is to develop routines and behaviours that achieve outputs, and whether in sports or business, the only measurement metrics that really mean anything in terms of competitive

advantage are those that appraise the outputs and behaviours contributing directly to successful attainment of the team or corporate goals. For many years now, such goal-driven appraisals have been a regular feature of the measurement of CEO and executive management performance, but robust board appraisals are rare and weakly applied. This must change.

But what about boards, their chairs and directors?

“While boards often become highly skilled at monitoring and improving the achievements of management it is far less common for them to give effective consideration to their own performance... Yet substantial benefits are available: to the organisation as a whole, to the board and to the directors individually.”

Henry Bosch, *The Director at risk*. Pitman. Melbourne

Despite all the evident benefit of executive training it is remarkable that, with very rare exceptions, there is relatively little demand or provision for the necessary equivalent training for boards, their chairs and their members. In my opinion this is mainly due to four facts contributing to confusion in the area of board development and training.

First, **very few boards have clear board goals** as distinct from enterprise goals, therefore it is impossible to develop clear output driven training to enhance behaviours for the board, its chair and its members.

Second, **hard edged evaluation of board performance and that of directors is extremely rare**, and even where it is present it falls well short of the standard of evaluation applied to CEOs and senior management.

Third, **suitable common-sense board output performance metrics are very hard to find**, and it appears that little work has been done on developing practical, easily applicable measurement in this vital area.

Fourth, **there is still a high level of resistance to formal board and director evaluation** in the boardrooms of Britain and Ireland despite lip service paid to the value of continuous improvement.

The IOD in Britain and Ireland run excellent programmes on general director skills, communicating technical information which any well equipped director should possess, and these courses do provide part of the answer. However, relative to the number of corporations and directors in these islands, attendance at such training programmes is pitifully small. There is still a dangerous assumption that the talent and experience of the gifted amateur is sufficient qualification for chairs and board members. Many years ago Bob Garrett stated in the context of boards delivering value for their shareholders, “The fish rots from the head”. And he was absolutely right.

One way to stop the rot is for shareholders and other stakeholders to demand that boards commit to an equivalent level of educative training for themselves as they require of their top management teams – and to demonstrate its effectiveness or otherwise by applying hard edged

transparent, evaluation processes to the behaviours and outputs of the board, its chair and its individual members.

The Higgs report (2003) stated 'The performance of the board, its committees and its individual members should be evaluated at least once a year. The annual report should state whether such performance reviews are taking place and how they are conducted.'

I would go much further. Without naming names, the headline results of the evaluation should also be published in the annual report together with details of the training to be undertaken to improve performance. Now that would be an interesting new angle of discussion for the AGM!

Definition of goals

To be effective, training programmes, must be directly linked to the desired goals and it is obvious that such a linkage is only meaningful if the goals themselves are precisely articulated. For example, a CEO and the top executive team might have enterprise goals that are clearly expressed as 12% ROI, or 27% market share, and their training will equip them with the abilities, behaviours and competencies - all measurable - to produce measurable outputs which deliver the required ROI and market share objectives.

Good training starts with clearly defined goals, delivered through measurable performance outputs and monitored by robust evaluation. In the case of an enterprise and its top executives, it is relatively simple to clearly define the goals, apply the appropriate metrics for measurement of key contributing behaviours and outputs, and hence to design effective, relevant training.

However, in the case of a board such definition is far from simple due to the breadth of responsibility, the regular ambiguities on which firm decisions must be made and the number of constituencies to whom the board owes fiduciary care. Nonetheless if boards are to be better trained, then it is essential that board goals be defined.

In passing, an example of a board goal could be 'to balance capital and debt so that the company has adequate financial resources.'

The need for business training

The pace of economic and technological change continues to accelerate, and the immense impact of knowledge as a factor of commercial wealth creation increases exponentially. These and other equally material challenging shifts for corporations are well acknowledged by corporate strategists. As a direct result, responsible boards ensure that heavy investment is made in rigorous evaluation, followed by continuous training and development, for CEOs and top management teams thus enabling them to successfully deliver their corporate goals in radically changing times.

In response to this demand, leading business educational institutions like Harvard Business School, IMD Lausanne, Insead, London Business School and dozens of others worldwide provide excellent executive education to enable CEOs and their teams to stay at the cutting edge of commercial understanding in the knowledge driven economy. The executive participants whose corporations gain most from this training are those who can translate training into enhanced performance leading to improved behaviours which contribute directly to the achievement of their specific enterprise goals.

Solutions developed from experience

For the past twenty-seven years, alongside my own entrepreneurial activities, I have served as a chair or director on over thirty boards, from high-growth startups to multinational corporations, and everything in between. In addition I regularly act as a confidential coach to leading corporate owners, chairs and CEOs on the development of their companies, boards and senior management teams.

Over the years I have seen board leadership action that has energised rapid growth and success, as well as board floundering which has resulted in enormous economic failure. I have been an active – if sometimes inadvertent – participant at both ends of the scale, which has allowed me to experience exhilarating joy at the zenith of commercial achievement, and confidence sapping despair at its nadir. Indeed, my abiding impression is that, as with most situations in life, the best board lessons are learned in the most painful way – through the experience of failure. Add good training to such learning and the prospects for future success are greatly increased.

From this wide experience over time I developed a methodology aimed specifically at the effective improvement of board, chair and director performance through targeted training. It is driven by a focus on goals, behaviours and outputs rather than on skills and understanding. It works. The components are board goals, evaluation and measurement, gaps and training.

First, clear definition of board goals; then evaluation and measurement go together to identify the gaps between goal requirements and board capability; and finally the training which fills the gaps so that behaviours are changed where necessary, outputs delivered and board goals achieved - followed by further rigorous measurement to record progress.

Board Goals – Introduction

All boards with whom I have worked quite correctly pay close attention to the strategic objectives of the business, but almost without exception they fail to clearly differentiate between these enterprise goals and the goals of the board itself.

Within different companies there is enormous variety in enterprise goals depending on maturity, life cycle stage, wishes of shareholders, management orientation and many other factors. With the help of strategic planning seminars, retreats, away days, and other approaches boards

generally arrive at a fairly clear understanding of what their enterprise goals should be.

But board goals are almost always ignored – even though they are the only true yardstick against which board performance can be measured, and hence the only true guide as to the type of training needed by the board and its directors.

From working with many corporate boards I observe that board goals, whether tacit or explicit, mainly fall into four categories. These categories cover the objectives, which if achieved, mean that the board concerned is really adding value to the corporate entity. They are: Board financial and risk goals, Board fiduciary goals, Board performance goals, Board process goals.

For purposes of evaluation and measurement I assign four sub-goals to each of these categories. In designing the process for a specific corporation, the sub-goals are weighted to reflect the priorities of the particular situation.

Board Financial and Risk Goals

The prime aim of enterprise financial goals is return to shareholders. The aims for board financial goals, while always acknowledging this essential outcome, lie more within the realms of rectitude and compliance; at the same time carefully weighing financial and commercial risk, giving enough space to allow entrepreneurial activity. The four sub-goals for the purposes of evaluation and measurement are: Auditing and monitoring, Investment and divestment, Capital and debt, Financial and commercial risk management.

1. **Auditing and monitoring**
This is a key function of the board, and its importance as a sub-goal is underlined by the rising influence of the audit committee, due in part to the corporate scandals of recent years, the ever increasing demands of changes in accounting standards and tighter regulation. It is critical for directors to pay close attention to this area regardless of whether or not they are audit committee members. The wealth of specific detail available on this subject allows the evaluator plenty of scope to determine the level of added value being delivered by individual directors and the board itself to this vital sub-goal.
2. **Investment and divestment**
An ongoing sub-goal of any effective board is to regularly analyse its portfolio of activities in the light of the financial returns they currently deliver and of course how they fit in the future strategic shape of the enterprise. Such analysis often leads to financial decisions of significant magnitude that all effective directors must be clearly seen to participate.
3. **Capital and debt**
This sub-goal generally has fairly clear metrics assigned to it due to the capital resource requirements of the business and to guidance and constraints from external funders, but its scale is fundamentally the

responsibility of the board and its directors. They can thus be evaluated on their contribution to ensuring a regular review takes place of its impact within the overall finances of the company.

4. Financial and commercial risk management
The key issue for achievement of this sub-goal lies in the board and its directors accessing timely accurate information, and then contributing positively to informed discussion on known and potential risk scenarios. The evaluation concentrates on a director's ability to contribute positively while retaining a prudent approach to risk.

Board Fiduciary Goals

Where some board goals, such as process or performance, by their nature will always be only partly achievable, the aim for fiduciary goals is total achievement of fair stewardship of all interests. Compromise is not acceptable, on legal or moral grounds, for sub-goals such as: Clear and honest disclosure, Governance compliance, Protection of all stakeholders, Ethical and environmental rectitude.

1. Clear and honest disclosure
Surveys of director characteristics repeatedly show that integrity is seen as the most important attribute of a board and its members, but realistically it should not be assumed that all directors give it the same weight. Within the bounds of commercial confidentiality it is a responsibility of the board to fulfil its disclosure requirements in a proactive and positive manner. Directors can be measured in this area not only by how their outputs contribute directly to the aim, but also in how they show fiduciary duty to the board in respect of confidentiality and what is **not** to be disclosed.
2. Governance compliance
IOD courses provide an excellent service to boards in this particular skills area, though the numbers attending courses which should be mandatory for all directors is pitifully small. A few well chosen questions and some observation can quickly show an experienced evaluator the effectiveness or otherwise of a director's outputs towards achieving the board sub-goal on governance compliance.
3. Protection of all stakeholders
This is a subject where there can be a significant variation in director output performance. Often, directors are appointed as representatives of funding institutions, individual shareholders, family members and, on occasion, employees. The theory is that once they step inside the boardroom they leave their sectional interest behind and work only for the good of the company, to whom they owe their fiduciary allegiance. The behavioural practice can be very different, as a result of which a director's output contributions can be severely biased toward a sectional interest. Evaluation, while acknowledging the dilemma, will show a low score on measurement relative to this important sub-goal.
4. Ethical and environmental rectitude
Conformance here often involves difficult choices in regard to ethics and environment versus ostensible financial gains. The costs to the

company can be high and the precise issues not so black and white as to allow easy decisions, with directors and boards needing perception, responsibility and not a little courage to deliver strong outputs.

Board Performance Goals

Where there are strong board and director behaviours and outputs towards achieving board performance sub-goals then clearly we are looking at a board which is adding real value; an obvious characteristic of which is that it invariably has an outstandingly competent chair. Such a board is no rubber stamping entity tamely following the lead of a powerful CEO. This board will be well supported by its shareholders. The sub-goals are: Strategic thrust, Leadership and decisiveness, Teamwork, Effective hiring/firing/motivating.

1. Strategic thrust
Outputs are measured on the degree to which the directors are 'aware' of the outside world; their ability in creation and delivery of the enterprise strategic goals to think laterally, to spot opportunities and to network effectively in support of the executive team and the board.
2. Leadership and decisiveness
The key delivery element of this sub-goal lies with the chair whose influence on leadership and decisiveness is critical – that delicate talent to optimise consensual decision making in complex situations; but individual directors must also play their part, whether on sub-committees or in the cut and thrust of board debate, and in particular when the consensus view goes counter to their own preferences. Contribution of outputs in this area fundamentally sets the tone which drives the culture of the entire organisation.
3. Teamwork
Arguably, demonstrable behavioural output contributing to effective teamwork is the single most significant determinant of successful board performance. Actively participating and playing for the team rather than to the gallery are output measures, as is the ability to support the CEO and senior executives in the board's deliberations. How a director is perceived by peers is also a key indicator of positive teamwork output.
4. Effective hiring/firing/motivating
It is vital that the board hires the right CEO, and it is perhaps even more vital that the board fires the wrong CEO. These are the key measures of this performance sub-goal, though consideration is also given to the effectiveness of the board and its remuneration committee in applying positive reward structures.

Board Process Goals

While the chair is a key factor in encouraging strong contributions by all directors towards the above performance goals, the company secretary is a critical player alongside the chair in ensuring achievement of business process goals. The board meeting itself is critically important and no amount of mechanistic compliance can gainsay this fact. Note this

statement from a non-executive director quoted by Carter and Lorsch, Back to the Drawing Board. HBS Press. "Our board satisfies all of the requirements of Cadbury, Greenbury and Hampel, but our board meetings are a complete waste of time".

The four sub-goals, focussed on information and efficiency are: Information availability, Systems and agendas, Meetings and committees, Learning and development.

1. Information availability
The quality and quantity of board information varies widely. It is the responsibility of the management, company secretary and every director to see that it is accurate, relevant and timely. Further, directors are measured on how they use and apply the information in support of the executive or in a monitoring/control function as appropriate.
2. Systems and agendas
This sub-goal demands high efficiency in order to justify high scoring on outputs. Board meeting location, communication between meetings, speedy response to requests, well planned calendar, accurate minutes, carefully structured agendas are all very important components of measurement.
3. Meetings and committees
The main contribution of directors and the main work of the board is done in the board and committee meetings. All directors bear a responsibility for their efficacy and they are measured accordingly, but the prime responsibility lies with the chair. The importance of the chair cannot be overstated in the achievement of outputs from the board meeting, and in the selection and structuring of committees. Also, so far as individual directors are concerned, I am not an admirer of the 'wise silent types' who rarely speak, and it is as much a responsibility of the chair to flush them out as it is to shut up the prattlers. Both types will score badly in this area, as will the chair who permits their behaviour, but the good news is that all can be effectively trained to improve their contribution.
4. Learning and development.
In evaluating a board and its directors it is important to apply a very rigorous measurement to this area. Regrettably many directors feel that having reached the boardroom they have little more to learn; and their commitment to self development is often unacceptably low given the changing corporate world with which boards have to wrestle. In measuring this dimension I have found it useful to make direct comparisons between a corporation's level of investment in the training of its executive and that of its board. In general, the low commitment level of directors to their personal development is alarming to say the least.

Evaluation and measurement

Having clearly defined the board goals, the next stage in the process of 'how can boards be better trained' is evaluation of the board, the chair, and the directors. I have seldom seen it done well. It is often superficial, bland,

general and compares most unfavourably, in terms of rigour and robustness, with the searching and demanding evaluations used for CEOs and senior managers.

Most evaluation processes appear to focus on skills and understanding. While on the face of it this sounds reasonable, it is a seriously flawed approach and delivers very little real value. Certainly it may uncover what they know, but it does not expose how they perform.

Directors may be asked to mark themselves on a scale of 0 to 10 on 'I have a good understanding of the company's business' – or 'I have a wide knowledge of company law'. Frankly, scoring well on this sort of evaluation does nothing more than say that an individual possesses the basic competencies to be a director.

The possession of a skill or a level of understanding does not add any value of itself. It is the utilisation of the skill that produces outputs and thus adds value towards the board goals. Deficiency in use is what really indicates gaps in the ability of the individual directors or the board corporate to contribute outputs which will deliver the board goals. It is not what they have in their heads that makes them superb directors – it is how they use what they have. As Peter Drucker put it, 'your qualifications only get you hired'.

Assuming then that skill utilisation and pro-active contributions are being evaluated, the best way to obtain meaningful measures of contributed value from directors is to adopt an **internal guided evaluation process**, conducted by a skilled experienced trained person, using an output driven approach – perhaps one of the independent directors – reporting directly to the chair.

The internal guided evaluation process results in a detailed **training needs analysis**, covering the individual directors, the chair, and the board corporate.

Training and development

With board goals clearly defined, and an evaluation carried out, resulting in the identification of areas and individuals where training and development will bring real value, the targeted training can begin.

The IOD, business schools and universities in these islands and farther afield are developing their offerings in director development. In addition to their excellent skills based products, it is encouraging to see the emergence of programmes directed at practical application of these skills. Experienced consulting firms can also provide appropriate training particularly in the behavioural area, but, in summary, for our boards to be better trained, five simple steps will yield great progress.

Step 1: **Clearly define board goals**, as distinct from enterprise goals.

Step 2: **Evaluate, measuring output behaviours** – not skills and understanding.

Step 3: Prepare an output-driven **training needs analysis**.

Step 4: **Train: targeting contribution**, and quality deficiencies.

Step 5: **Evaluate regularly – train continuously.**

The market may well be served by further increases in training provision to enhance outputs and the utilisation of skills, but **it will take a radical change in mindset for boards to undergo a comparable level of training and development as they demand of their CEOs and executives.** If such a change in mindset took place it might well deflect some of the ire and criticism being directed at under performing boards by the growing chorus of shareholder activism – and, by the way, our boards will be better trained!