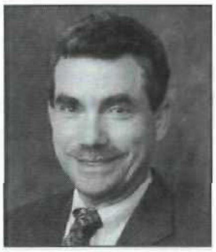
MAKING BOARDS MORE EFFECTIVE

In Too Many Cases, Boards of Trustees Are "Incompetent Groups of Competent People"

BY JAMES E. SMALL



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Boards are incompetent groups of competent, well-meaning people. —John Carver[1]

Too many non-profit boards end up being impressive collections of accomplished people doing low level work. —Richard Chait[2]

Carver's and Chait's low opinion of the effectiveness of most boards of trustees is widely reflected both in current governance literature and in general observation. During my own career I have attended hundreds of board meetings as a CEO, board member, and observer, and I must admit that my experience is largely consistent with the literature.

Why are boards so often ineffective? Are there ways they can be improved so that they could make significant positive contributions to their organizations?

SIX CAUSES OF BOARD INEFFECTIVENESS

There are six root causes of board ineffectiveness.

Trustees Are Volunteers Who Spend Limited Time on Governance Trustees, who are usually very busy people with a variety of pressing obligations, normally spend only a few hours a month in their governance role. As a result, governance naturally tends to fall to the bottom of their list of priorities. If, moreover, they are not especially committed to governance and do not spend much time educating themselves and preparing for board meetings, even very competent people will very likely be ineffective trustees.

Trustees Are Often Unclear about Their Roles and Responsibilities Given the small amount of time most trustees spend on governance, it is no wonder that they frequently tend to be hazy about their role in it. What makes this even worse is the fact that many boards lack an effective process for orienting or educating new members. Trustees often receive no written materials describing their roles, responsibilities, expectations, and accountabilities. We would not dream of hiring a person for an important management position without first providing him or her with a job description. Yet trustees are frequently appointed to boards without being clearly informed about what they are expected to do there. How are uninformed trustees to judge their effectiveness in conducting governance? How are they to see what they need to do to improve?

Board Appointments Are Often Not Based on Competence Frequently, when people are asked to serve as trustees, it is because they represent a particular group, are affluent, or hold a prestigious position. It is unusual for a board to select new members on the basis of predetermined competencies. Because this is so, many boards are made up of very bright, able people whose skills and experience do not match up with the board's needs. In these cases, the board turns out to be a whole that is less than the sum of its parts.

Board Leadership Is Sometimes Weak Depending on the circumstances, a board's leadership may be provided either by its chairperson or the organization's CEO, or by both.

The Board Chair. Unfortunately, it is not unusual for a board to have a weak chair. This can occur for a variety of reasons. The succession planning, for example, may have been insufficient or ineffective. The selection process may have lacked the structure necessary for choosing a strong and competent leader. The board may not have known how, once the chair was selected, to develop his or her leadership skills. Because many boards do not have a process for assessing the chair's performance, that person will have only a limited opportunity to review and improve his or her performance.

The CEO. Although an ineffective chair will keep a board from performing well, a CEO who provides weak leadership to the board can be an even more serious obstacle. Many boards, particularly those in the not-for-profit sector, are dominated by CEOs. Unfortunately, such leaders often do not encourage their boards to be active or effective. There are a variety of reasons for this behavior. Many CEOs either do not see the value of governance or do not see a link between effective governance and improved organizational performance. Other CEOs do not understand the basics of effective governance; they believe that they have an extensive knowledge of governance—but, in fact, do not have a clue. Still others simply have no interest in governance, and therefore do not focus on it; as long as the board does not interfere with what they are doing, they see no need to worry about governance. Finally, some CEOs feel threatened by having strong people around them and are more comfortable with a passive board.

> Most boards are not structured to function in a systematic way.

Strong leadership is vital, however. If neither the chair nor the CEO is an effective leader, the trustees, no matter how outstanding, will not be able to use their skills and expertise to produce a highly performing board.

Some Boards Have a Tendency toward "Group Think" Another problem is the "group think syndrome."[3] Psychological and sociological researchers have shown through countless group behavior experiments that peer pressure can greatly affect the judgment of individual group members. Each group develops its own norms, which in turn help shape the perceptions and judgment of its members. Most trustees will try to conform to their board's norms and their fellow trustees' opinions, particularly if they like and respect the other trustees and perceive a shared consensus in the group.

Board members who take positions against a board majority or against a competent and popular CEO inevitably experience a certain amount of discomfort. I remember, for example, voting against the position taken on a major issue by the CEO of a healthcare system of which I was a board member. The CEO, who had recruited me, was a respected leader, whereas I was a very new trustee. I vividly recall breaking out into a sweat when I realized I would have to take a position that the CEO opposed.

The "group think syndrome" is most likely to be a problem on boards with several of the following characteristics, some of which we would ordinarily consider positive:

- The trustees relate well with one another and interact often (the group is cohesive).
- The board's leader is directive and does not encourage divergent opinions.
- The organization has been very successful.
- There is pressure on the board to make a speedy decision.
- The trustees have a great deal of confidence in, and respect for, the CEO.
- The trustees have limited, perhaps inadequate, information for their decision making.
- The board has little member turnover.
- The board has only a small number of diverse members.

When some or all of these factors are present, it is not unusual for an otherwise hard-nosed trustee to go along with colleagues on a board decision that, in other circumstances, he or she would never tolerate. And it is through joining in such decisions that otherwise competent trustees can find themselves on boards that have fallen asleep at the switch on major issues.

One important function of governance is providing checks and balances to management. Good boards ask tough questions.

Most Boards Are Not Structured to Function in a Systematic Way Although effective management is systematic management, the words "governance" and "system" are rarely found in the same sentence. Sometimes, because they lack a system of governance, boards fail to focus on what matters: organizational performance. In fact, many boards do not even have specified objectives or an annual work plan and do not conduct regular self-assessments and/or agenda planning. They simply are not focused on organizational performance—on the mission, vision, and values of the organization—and on the board's specific responsibilities for them.

Unfortunately, this can be especially true of the boards of not-for-profit organizations. For them, governance is often an informal and sometimes haphazard activity. This is a major reason why the competencies of such trustees are often underutilized and why the boards they serve often do not perform up to their potential.

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Can anything be done to remedy this situation? Or is the concept and institution of governance, by its very nature, flawed?

Most experts take the position that, at its best, governance leaves much room for improvement (see **Box**). In today's environment, however, ineffective governance cannot be tolerated. In the for-profit sector, there is empirical evidence that improved governance effectiveness translates into improved organizational performance.[4] It is reasonable to assume that effective governance in the not-for-profit sector would have similar results.[5]

To improve its performance, a board must *address the six root causes of ineffectiveness.* Because the causes are interrelated, the board should develop a plan for dealing with them in a sequential manner. The following sequence works best.

Board Leadership Leadership is the key to unlocking high performing governance. If the board chair and CEO do not supply strong and effective leadership, it will be nearly impossible to eliminate the other root causes of ineffectiveness.

The Board Chair. Is the board chair a strong leader? To answer that question, the board may first need to answer several others:

- Are the right topics on the board agenda?
- Does the chair maintain the board's focus on mission, vision, strategic direction, and the other responsibilities of governance?
- Are board meetings effectively and efficiently managed?
- Does the chair get the best out of the group during meetings?
- Does the chair effectively use the skills and expertise of the trustees?
- Does the chair foster open and creative dialogue among the trustees?
- Does the chair work well with the CEO?
- Does the chair encourage educational development of trustees?

These are certainly not all the questions one could ask to determine a board chair's strength. And no matter how the strength of the current chair is assessed, it is critical that the board also address its future leadership. It should, for example, *have a written succession plan for the next* chair. The new chair should be carefully selected and developed to fill the role. If succession planning, selection, and development are not done purposefully, then the board's leadership is being left to chance. If necessary, the board should go outside the organization for help in developing an effective succession, selection and development process. It should also have in place an appropriate chair assessment process to help it, first, develop the current chair and, second, either reappoint the current chair or select a new one.

The CEO. The most difficult leadership problem involves a CEO who does not encourage the board to be active and effective. Only an organization's board is in a position to change its CEO's behavior. (An organization whose board chair and CEO are *both* weak will find it difficult, if not impossible, to address the other root causes of ineffective governance.)

But a reasonably strong and informed board and chair can correct a CEO leadership problem. They should first open a dialogue with the CEO concerning his or her perception of the board and its role in improving organizational performance. This type of dialogue might be held during a governance self-assessment retreat or as part of the CEO's evaluation.

In the dialogue, the board must determine why the CEO is not encouraging active governance. Does he or she not see value in governance? Does he or she perhaps not understand how a board should function? If the answer is yes to either question, the board may choose to provide the CEO with additional governance education. This may be accomplished by hiring a consultant to educate the CEO, or by having key board leaders and the CEO attend an outside educational session together.

CEO ASSESSMENT OF BOARD EFFECTIVENESS

In 1998 The Governance Institute surveyed hospital CEOs concerning the effectiveness of boards of trustees. Eighty-two percent of the respondents said boards invested funds prudently, 83 percent said boards ensured physician credentialing effectively, and 81 percent said boards made fair decisions about executive compensation.

But a significant number of CEOs said boards were less than fully effective in other functions. Following are, first, those functions and, second, the proportion of CEOs finding boards to be relatively ineffective in performing them:

- Assessing the performance of the board itself—58 percent
- Formulating policies to guide executive action—53 percent
- Monitoring clinical effectiveness—46 percent
- Monitoring service effectiveness—44 percent
- Establishing clear executive performance expectations—44 percent
- Assessing executive performance against expectations—40 percent
- *Providing links to the hospital's constituents—35 percent*
- Establishing a shared sense of organizational purpose—32 percent
- Thinking strategically about issues and opportunities—30 percent

—Adapted from *The Governance Institute*, April 1999

However, if it turns out that the CEO either is not interested in governance or does not want strong governance leadership, the board may need to consider a different remedy. It must provide the CEO specific expectations with timelines for improvement. Then, if he or she still fails to meet expectations, it is time for a new CEO. Again, the key to resolving this issue is an educated and fairly strong board chair and board that will not accept inappropriate CEO behavior. Unfortunately, a board that has acquired a CEO who considers governance unimportant is generally not a strong and informed board.

Systematized Governance Once strong leadership is in place, the next step is to reorganize governance into a system (see **Box**). To accomplish this, the board should:

- Establish principles that will ensure that it operates according to the systems model (see **Box**, p. 32)
- Determine the trustee competencies needed to improve organizational performance
- Change the composition of its membership accordingly
- Establish objectives and an annual work plan and use them to assess its performance

In conducting governance, the board should regularly monitor its work and assess its success (or lack of it) in meeting its responsibilities and objectives. By doing so, the board can make appropriate changes in trustee behavior or in its membership. This monitoring and assessment may also lead to changes in the governance process. Such systematic changes are the key to continuous performance improvement. In using this model, the board will focus governance on the organization's performance in meeting the requirements of its mission, vision, and strategic direction.

Understanding of Roles and Responsibilities Trustees need to understand both the board's role and responsibilities and their own as individual board members. These should be discussed in detail during the members' orientation process. (New trustees should receive written descriptions of expectations and responsibilities as well.)

However, a good orientation process is not adequate in itself. The trustees' role, responsibilities, and accountabilities—and those of the board as a whole—must be reviewed and discussed on a regular basis. At a minimum, this should be done every two years as part of a trustee and board assessment process.

A Competency-Based Board It is also critical that a board have members possessing appropriate skills and expertise. The board should, in fact, be competency based.

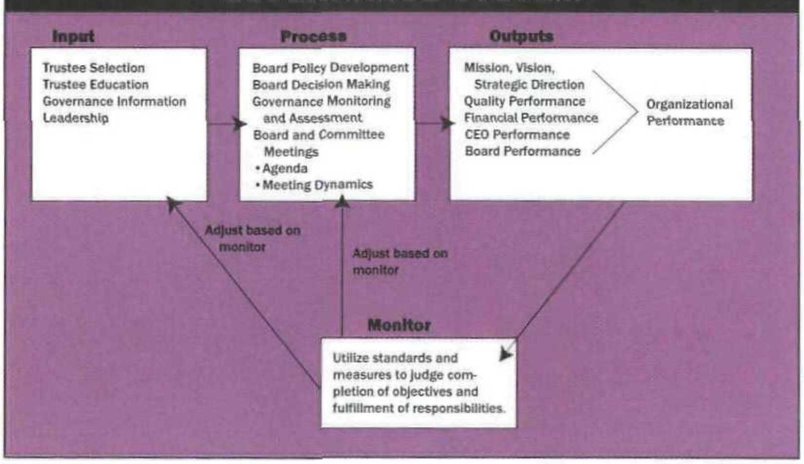
There are two types of competencies: individual trustee competencies and collective board competencies. The former are the basic skills, experience, and expertise that a trustee must possess to join the board. The latter are the skills, experience, and expertise that the board needs in order to improve organizational performance. Both kinds of competency should be considered in the recruitment and selection of new trustees. Since these competencies will change as the needs and strategic direction of the organization evolve, they should be reviewed on a regular basis.

Once the right people are in place, their competencies must be utilized. One of the board chair's key roles is making use of the trustees' competencies. The chair, with help from the CEO, can do this by actively soliciting input from trustees and giving them appropriate committee assignments. The chair must, moreover, ensure there is adequate time on the board agenda for members to express themselves and apply their experience and expertise to the issues at hand.

Overcoming "Group Think" The struggle against the "group think syndrome" should be part of the orientation process of new trustees. The board chair should explain that a key role for governance is serving as a check and balance to management and that, to do this, board members must ask tough questions. New board members need to understand that it is okay to disagree with one another and with management. This should be reiterated as part of the periodic review of the trustee's role and as part of the continuing governance education. Both the board chair and CEO must foster a board culture that not only permits but encourages this type of trustee behavior. To foster such a culture, board leaders must be open and nondirective during discussions.

They should also insist that the board's decision making be done systematically and on the

GOVERNANCE SYSTEM



basis of adequate information. Board members should be diverse in terms of their backgrounds, skills, education, and experience. Finally, boards should set term limits for their members, thus guaranteeing trustee turnover. It is not uncommon for a board to become inbred and lose sight of the organization's stakeholders and their interest. The 1998 bankruptcy of Philadelphia's Allegheny Health, Education and Research Foundation is only the latest and most visible example of this phenomenon.[6]

But such debacles need not happen. If the above actions are implemented, a board can be active and cohesive without falling prey to "group think."

Making Good Use of Trustees' Time Trustees, especially those in the not-for-profit sector, are volunteers who have only a limited amount of time to spend on governance activities. This being so, they need to thoroughly understand their organization's business. If the business is complex, as is the case with healthcare, this will involve a significant, possibly increasing time commitment on a trustee's part.

It is, therefore, extremely important for the board's leaders to discuss with a new trustee the time that will be required to fill the role effectively. In fact, prospective trustees should be counseled not to accept board appointments if they cannot commit themselves to the time required. (Too often, new trustees do not come to understand the time requirements until *after* they have attended several board meetings.) Board leaders should hold similar conversations with trustees they are considering for reappointment.

Symbolic measures—for example, installation ceremonies for new board members—can also help reinforce the new trustee's sense of obligation to the board and the organization. And finally, as not-for-profit organizations increasingly expect more from their governance, they will have to give further, careful consideration to trustee compensation. This can be controversial and will not be the answer for every board. However, compensation can no longer be dismissed out of hand as morally or ethically inappropriate for not-for-profit trustees.

PRINCIPLES OF EFFECTIVE GOVERNANCE

A board of trustees should:

- *Realize that governance is active, not passive.*
- Understand that governance is a strategic partner with the CEO.
- Be focused on the future (strategy), not the past (monitoring); it should spend 75 percent of its time on the former, 25 percent on the latter.
- Clearly understand its shareholders' interests.
- Ensure that mission, vision, and values should play a major, visible role in its work.
- Put important board policies in writing.
- Have a clear understanding of its role, responsibilities, and accountabilities, and those of its individual members as well.
- Hold regular self-assessment retreats.
- Have from 10 to 15 members.
- Have simple structures.
- Be competency based.
- Establish measurable objective standards for monitoring the organization's progress, the CEO's performance, and the board's own performance.
- Have a formal agenda-planning process.
- Put its expectations of the CEO in writing.
- Establish an orientation process for new employees.
- *Establish regular self-education sessions.*
- Put succession plans for the CEO and board leaders in writing.
- Develop their goals, calendars, and work plans annually.
- Have a budget and adequate staff support.
- Have periodic written evaluations of its own performance and that of the CEO. (The CEO's written evaluation should occur annually; the board's written assessment of itself, its individual members, its chair, and its standing committees should be done every two years.)

THE CHALLENGE OF GOVERNANCE

Our society is currently undergoing the most dramatic and sweeping changes since the industrial revolution. The organizations that survive and thrive in the new century are those now making fundamental changes in operations, management, and governance. Each part of an organization will have to do its part to improve performance. This certainly includes the board. Boards must become—not just groups of competent, well-meaning people—but competent groups. □

NOTES

1. John Carver, *The Chairperson's Role as Servant-Leader to the Board*, Jossey-Bass, San Francisco, 1996.
2. Richard Chait, quoted in *Exempts, a Grant Thornton Newsletter for Not-for-Profit Service Organizations*, vol. 8, no. 2, 1997.
3. Christopher P. Peck and Gregory Moorhead, "Groupthink Remodeled: The Importance of Leadership, Time Pressure and Methodical Decision-Making Procedures," *Human Relations*, May 1999, p. 537.
4. John A. Byrne, "The Best & Worst of Boards," *Business Week*, December 8, 1997, p. 90; and "CalPERS Effect," Whilshire Associates, www.calpers.ca.gov/about/factglan/corpgov/corpgov.htm
5. Douglas K. Jackson and Thomas P. Holland, "Measuring the Effectiveness of Nonprofit Boards," *Nonprofit & Voluntary Sector Quarterly*, vol. 27, no. 2, 1998, pp. 159-182
6. Ed Bryant, "What Boards Can Learn From the Allegheny Bankruptcy," *The Governance Institute*, summer 1999.