# Enhancing the effectiveness of Board decisions

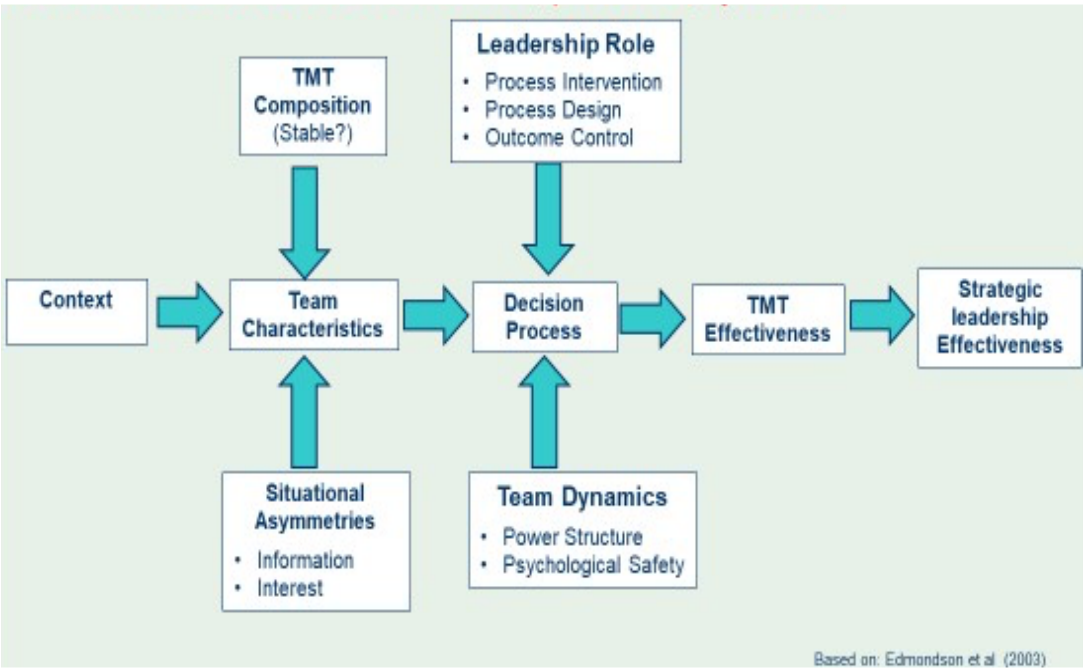
Legislation, Regulation, and company documentation, such as Articles of Association, delegate most of the authorities and responsibilities of running a company or a charity to a Board of Directors or Trustees. Typically, Boards range in size from 8 to 15 members and include a mixture of Non-Executive and Executive Directors, with the majority being non-Executive. Frequently they involve people with a range of skills and knowledge, experience and backgrounds and this diversity of membership is gradually increasing. What is more, the Directors or Trustees do not spend that much time together, and the Non-Executives have little exposure to the day-to-day activities within, and by, the organisation.

Despite, and/or because of, this range of backgrounds, skills and experience, and levels of involvement with the organisation, members of Boards are expected to collectively make the key strategic and financially material decisions for the organisation or recommend such to shareholders.

How best then, can the Board, led by its Chair, ensure it makes the most effective decisions against such a background? What factors should it consider and seek to manage?

**The Edmondson model**

A model designed to consider such, which is taught at Bristol Business School, and elsewhere, was developed by Edmondson et al from Harvard Business School and reported in the Leadership Quarterly 14 in 2003. A diagrammatic representation, based upon their model, is set out below.




Despite being an experienced Board member, having sat as Chair, NED, CEO and COO on over a dozen boards ranging from private companies, through membership organisations to charities, this model was, until recently, new to me- and I expect to many others who sit, or have sat, on Boards.

Being somewhat taken by the model, I thought it worthy of bringing to a wider audience- in particular to budding Non-Executives and to the Boards of smaller private companies, Partnerships, Third and Public sector organisations. I hope you find it interesting and thought provoking and as a potential framework with which to consider your Board and its decisions, and to enhance corporate governance.

Its substance will ring true, I am sure, experientially, for many Board members and Trustees. Its power, I believe, is rooted in that, and that it then provides a framework to consider and manage these issues which are faced by all Boards, and top management teams.

**Effectiveness**

The starting point is to understand what is meant by "effectiveness." Edmondson et al (2003) define it as follows

"(1) the degree to which the team's decisions enhance organizational performance
(2) members' commitment to implementing team decisions and willingness to work together in the future
(3) the extent to which the team process meets members' growth and satisfaction needs"

This suggests that ineffectiveness can lead to sub-optimal decisions, and/or sub-optimal execution of decisions, and/or a reduction in commitment by Board members to the Board and a reduced ability to work together, hence impacting future decision-making effectiveness.

**Context**

At the core of the model is a recognition that each and every decision has its own context- which will reflect, amongst other things, conditions in the market and wider environment in which the organisation is operating at any given time, its own strengths and weaknesses at that particular time, its objectives and strategy to achieve such, its culture, the nature of its leadership team, and the potential impact of, and risks associated with the decision, and the views of its stakeholders at that particular time.

How often, though, do Boards consider whether different decision-making approaches might be taken because of the context of the decision? Is there a standard approach and/or is there a default to a particular approach for urgent or material decisions?

**Composition of the Board**

Each board member will bring their own worldview, cultural influences, character and temperament, current state of mind, plus their knowledge, skills, and experience to the decision in question. This range will only increase as Boards become more diverse. This is both a potential strength, and a potential weakness, for effective decision making.

Board Members will also bring the relationships which they have with other Board members- which may be well established or new, strong, or weak, co-operative, or confrontational.

The Board may also be at various stages in the "forming," "storming," "norming," "performing" phases of team building- and this will change as Board members leave or join.

The length of tenure of Board members may also vary, which will impact upon and reflect those points above, and which may also influence the level of independence and "group think" within the Board.

How might these factors influence decisions? Might they make the Board risk takers or risk averse? Might it lead to excessive speed in making a decision, or slow down the process beyond that which is optimal? Might they create inertia? Might it lead to conflict and substantial disagreement, disruptive behaviour, deliberate positioning around alternative views, and lead to splits, which might create inertia, lack of direction, disruptive behaviour?

Might it lead to a lack of challenge and scrutiny and sufficient weight being given to alternatives?

Might it lead to domination of the Board by a powerful Chair, CEO, or interest group?

Surely the key question is how can the diversity of the Board be leveraged as a core strength, and prevent or overcome any of the issues highlighted above?

The Board, Chair and Vice Chair, and Senior Independent Director can and should consider these issues and seek to manage, mitigate, or leverage them as appropriate.

**Information asymmetries**

Information asymmetries means that all Board members do not have access to the same relevant information at the same time, in a format which they can all fully understand and scrutinise. It can also mean that some Board members- often Non-Executives- do not have access to some information at all, which remains in the preserve of the executive team.

Such asymmetries may limit the efficiency, if not the effectiveness of Board decision making. It may also mean that the Board does not have a holistic overview of what is going on in the organisation- or if so, not on a timely basis.

Examples of such, in my experience, have included a lack of sufficient, accurate and timely information that would enable an appropriate level of operational scrutiny to be exercised by the Board, and/or to assist diagnosis of factors behind organisational success or failure. Equally, the provision of strategic information in a structured informative manner can be problematic.

The quality, quantity, format, accuracy, distribution and sharing, and timeliness of Board information- both in general and with respect to decisions thus can have a significant impact on corporate governance and on the effectiveness of individual decisions.

A “Balanced score card” approach to Board information packs, with clear, robust, and audited trails can assist such.

**knowledge asymmetries**

A challenge that can be greater than information asymmetries can be knowledge asymmetries- that is that certain Board members have far greater levels of knowledge, experience, and expertise in a subject than in others, and that some Board members may have little knowledge about a subject.

It is normal, for example, for several, but not all, Board members to have a strong understanding about finance. It may also be the case that some Board members understand more about the organisation’s markets than others or understand more about the legal environment in which a decision is being made. It may also be the case that there are operational experts on the Board- particularly if the processes or products of the organisation are very specialised. Indeed, it can be particularly good practice to have such expertise on the Board.

However, the challenge is that the other Board members may come to rely on them for key decisions. It may also be the case that members of the Board do not have sufficient expertise to understand the nuances of a particular decision they are making.

I am aware of Boards having made decisions around projects without most of the Board understanding what a negative Net Present Value for the project meant, for example. Or not understanding the difference between profit and cash flow. Having sat on the Board of a specialist provider of Health care services, I was acutely aware of the dependence of the Board on the expertise of Board members with clinical backgrounds with respect to clinical risk management. Other Boards of which I am aware oversaw businesses with a number of potential Health and Safety compliance risks- of which only a few of the Board were knowledgeable prior to some specific training.

A particular challenge arising from the strength of Board diversity therefore can be knowledge asymmetries.

It is therefore important to recognise these asymmetries, accept that they exist, and mitigate them through Board training programs and through the judicious use of external advisors.

**Vested interests**

Another factor to be considered is that of the vested interests of Board members, or of executives providing information to the Board.

Whilst Boards tend to be, overall, good at identifying obvious conflicts of interest and asking Board members to declare them- such as, for example, potential transactions with a party with whom the Board member has a commercial or personal relationship, vested interests can often be more subtle and nuanced than such.

A starting point for consideration of such can be considering “WIFM”- “what is in it for me”- for Board members and executives with respect to a decision. This could include earning of bonuses, vesting of share options, reputational gains or losses, changes to power bases and levels and scope of influence, impact on their career, their family life etc. None of these are necessarily “improper,” nor necessarily in conflict with duties to the organisation- and indeed may be in line with legal duties- but they may shape that individual’s approach to and view of Board decisions, and thus impact the effectiveness of that decision.

Interests can also arrive from Board members being emotionally, intellectually, or professionally interested in a matter thus creating a degree of “bias” and bringing an extra level of subjectivity to a decision.

Some may also have pet projects. A great colleague on a Board on which I sat had a particular view that “wet rooms” should be installed in housing as opposed to more traditional bathrooms.

It is perfectly normal for individuals to have vested interests. What is important is for these to be understood, as transparent as possible, and considered as part of any decision-making process.

**Decision process**

The way in which the decision process is led is also an important source of either potential asymmetries, group think, or conflict, or a means to address these.

The way in which decisions are arrived at can also be important. Is consensus being sought? If so, is that through mediation amongst Board members? If agreement cannot be reached then will a member of the Board arbitrate between views, or have the final say independent of the views of others. How will this fit with voting protocols set out in the Articles of Association or Board memoranda?

Consideration needs to be given to who, how, where, when, why decisions are being made, over what timescale, and based on what information, provided by whom, and how scrutiny and challenge will be undertaken, as well as the creation of a robust audit trail- having regard to the composition of the Board and any potential asymmetries

**Team dynamics**

The final part of the equation is to consider how team dynamics may enhance or impinge upon Board effectiveness.

There are some key relationships to consider- such as the relationship between the Chair and the CEO, and the CEO and the CFO. More widely there is the relationship between the Non-Executives on the Board and the senior executive team. I have witnessed some situations where the executives dreaded attending Board meetings and had poor underlying relationships with Board members. That can reflect the context of the decisions being made. I have also seen others where there is a strong working relationship.

More generally, Boards tend to be peopled by “alpha” people, who are confident, assured, and successful- and there is a risk that there are “too many bulls in the field.” Board selection, culture, and explicit and implicit team roles within the Board, for example such as those identified by Dr. Meredith Belbin can assist the management of this potential challenge.

There may also be differences in strengths in relationships between Board members. These might be influenced by how long they have served together, how long and how well they know one another, similarity in backgrounds, convergence or divergence of interests, and history together on the Board.

It may also be the case that certain external stakeholders have more or less influence on certain Board members.

The difference in characters can also play a part. Some people (I am one of these) think aloud and test ideas through discussions. Others can be reflectors and need time to absorb and consider information. There can also be differences between peoples’ EQ and IQ.

Of huge importance is the level of psychological safety created in the Board. Do people feel willing and able to challenge, scrutinise, disagree, test theories, ask “silly questions,” display ignorance on a subject, play “devil’s advocate,” etc. without fear of ridicule, feeling inadequate, or of potential consequences?

Closely related to, and an integral part of, psychological safety, is Trust. Do Board members trust the motives, skills, knowledge, experience, and judgement of their colleagues on the Board and/or of the senior executive team. Do they trust that they have put in the required effort and read and analysed the Board papers and come fully prepared to each Board meeting. If not, then team dynamics may impact on effectiveness.

**Conclusion**

Edmondson et al’s model suggests that board and top management decisions would be more effective if explicit consideration is given by Boards to identifying, mitigating, and managing the dynamics set out in the framework.

Actions arising may include

- Board team building exercises

- Seeking to develop and/or maintain a culture that ensures information and knowledge is shared openly and evenly and discourages power politics based around the sharing and timing of information provision
- A review of the specification for Board information packs
- Audit of the information provided in Board information packs
- Training programs to address knowledge asymmetries
- Creating a culture of psychological safety
- Clearly recognising and recording and addressing all potential conflicts of interest
- Agreeing suitable time frames and processes to support robust, effective decision making
- A focus by the leaders of the Board (Chair, Vice Chair,) on identifying and managing the issues and scrutiny by the SID on such an approach.
- Reporting on the approach to key stakeholders.
- Assessing Board performance.
- Putting in place a panel of experts who can assist the knowledge of the unexpert Board members on specialist subjects.

**Andrew Manning**

Andrew Manning is an experienced Chair, NED, and CEO, and has spent over 30 years working with business and professional service organisations going through substantive change. He is an alum of Harvard Business School and has served on over a dozen boards in various capacities. He possesses a Post Graduate Certificate in Corporate Governance. In addition to Non-Executive and Advisory work, he is currently a Senior Lecturer in Strategy and Operations Management at Bristol Business School, University of West of England.

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