

Johannesburg
18 January 2017

HIGH PERFORMING BOARDS

By Jene' Palmer and reviewed by Terrance M. Booysen

Board performance, or the lack thereof, has recently been quite prominent in the South African landscape. Unfortunately, the examples of mismanagement, poor oversight and lacklustre governance of our state-owned entities as well as some private sector businesses, abound. Poor and deteriorating financial results, high staff turnovers, lack of strategic direction and transparency as well as little to no stakeholder communication, are but some of the symptoms of a poorly performing board.

More often than not, the “trying economic times” are blamed for poor performance, but while tough economic conditions may increase the pressure in the boardroom, it should not be used as a catchall excuse for the overall poor performance of the board.

The reality is that stakeholders across a wide spectrum are becoming less forgiving of poor board performance despite a more complex and competitive operating environment. As such, it is time for businesses -- whether state-owned, public, private, profit or non-profit -- to take board evaluations far more seriously and use the results thereof to drive a culture of continuous improvement. Gone are the days that board evaluations can be viewed as a ‘tick box’ exercise for compliance purposes only. Board evaluations in fact act as a ‘dipstick’ to assess the overall ‘health’ of the board, its committees and individual directors, in much the same way as a dipstick of a vehicle is used to assess the oil level in the vehicle. The board evaluation, if properly performed, can provide early warning signs of trouble in a manner which enables the board to proactively address any potential performance and compliance issues.

The board evaluation should be used as an important diagnostic tool to assess whether the board, its committees and individual board members are meeting the desired levels of performance - and thereby positively impacting the performance of the business. An independent and experienced evaluator is often better positioned to objectively evaluate the performance of the board and will present a report which will identify strengths and weaknesses, and add value by recommending areas for improvement to help the board become a high performing board.

It is important that the board evaluation not only address related compliance matters, but it should also be tailored to assess the motivations and capabilities which impact on the performance of the organisation's board as a whole. The board should identify those qualities and competencies which they deem important in being able to make an impact on the business and drive overall improved performance.

Some competencies which boards can consider in establishing themselves as high performing boards are set out below:

1. Increased engagement levels

Whilst compliance will always be an important component of the board's oversight role, high performing boards are strongly engaged in strategy, performance management, leadership development, succession planning, resource and investment management as well as maintaining a robust Corporate Governance Framework®. When compared to an average or poor performing board, research which is supported by a McKinsey Global Survey indicates that high performing boards dedicate on average twelve days per annum to strategy.

To be an effective, high impact board member requires time. To fulfil their fiduciary duties, board members must take the time necessary to understand the business and prepare for meetings such that they can critically challenge decisions and policy. When necessary, they need to consult with experts and/or management to ensure that they have sufficient information to facilitate good decision-making. To properly perform these responsibilities requires an investment of time on the part of the board member. As such, the nomination committee must consider the number of boards that any individual can successfully serve, before finalising their nominations for an appointment or a re-appointment to the board.

2. Clarity in role definition and responsibilities

Most boards understand that they are ultimately accountable for the performance of the business. However, a higher level of engagement may increase the risk of the board getting involved in operational matters. It is therefore important for the board to understand the role it plays and the strategic boundaries within which it operates. A high performing board critically challenges and questions the status quo; it evaluates alternatives and approves resource allocations, without compromising its oversight responsibilities.

3. Board composition

The importance of having experienced, participatory board members working as a team cannot be under-estimated. The board needs to be balanced with individuals who bring their own strategic perspective and experience to the boardroom and who have a solid understanding of the organisation's business environment. These skills, experience and competencies must be complemented by a blend of temperament and character which results in board members being able to objectively and comprehensively examine and debate issues critical to the business. Individuals who agree with one another simply to finish a meeting quickly, or who succumb to peer pressure, will not add value to the board and consequently the organisation and its business.

4. Effective chairman

The chairman plays a critical role in creating an environment for full engagement. The chairman must foster a culture of trust and respect in which board members can speak honestly and frankly without fear of ridicule. Every board member must be given an opportunity to express their point of view on any board matter being discussed.

The board agenda approved by the chairman must be meaningful and relevant, and sufficient time must be allocated by the chairman to discuss each topic on the agenda.

The chairman is also responsible for making sure that the board remains focussed on its objectives and that there is good cooperation between non-executive directors and the management team, particularly the chief executive officer. Structured engagement opportunities which allow non-executives to gain a better appreciation of the risks and opportunities facing the business should be encouraged.

5. Clear understanding of stakeholder expectations

The organisation's strategic direction cannot be finalised without a clear understanding of its stakeholders' expectations. This can only be achieved if the board knows who the stakeholders are and what impact they can have on the business. Armed with this knowledge, the board will be better positioned to set and measure the achievement of performance objectives as well as strategic and operational milestones of the business.

6. Culture of trust and respect

The board is responsible for 'setting the tone at the top' and nurturing the organisation's culture. However, this is only possible if the board itself lives and practices the same cultural values it is trying to embed within the organisation.

Regular, transparent and accurate communication is required to build a culture of trust and respect which is necessary for a high performing board. Such a culture encourages honest, objective evaluation and inquiries with the objective of continuous improvement. Furthermore, it promotes full engagement from the board members and allows them to leverage their skills and experience to help drive and improve the performance of the organisation.

7. Effective Corporate Governance Framework®

An effective Corporate Governance Framework® adds value to the organisation by prioritising risk, thereby facilitating timeous decisions to deploy appropriate scarce resources. The framework in question needs to be tailored to suit the organisation's business and it must be timeously updated to provide board members (especially non-executive directors) with meaningful and relevant information.

Information is an essential enabler for board members – without accurate and timeous information board members cannot fulfil their fiduciary duties to act in good faith, in the interests of the business and with due care, skill and diligence. However, organisations should make it easy for board members to internalise important information especially in a world where people are bombarded with a plethora of emails, articles, tweets and so forth. Dashboards are often a useful tool to quickly disseminate the organisation's overall corporate governance status.

To achieve real growth and success in an ever-evolving and complex regulatory business environment, board members are going to have to move out of their comfort zones to improve their overall corporate governance and board performance. Independent board evaluations are a first step toward assessing the effectiveness of boards, board committees and individual board members. Indeed, board evaluations can be tailored to measure and compare year-on-year board performance, as well as track the successful implementation of prior year recommendations for improvement.

The challenge, however, for all types of organisations is to ensure that the results and recommendations emanating from these board evaluations are properly internalised and that the appropriate action is taken to continuously drive a higher standard of performance across the board as well as the organisation.

ENDS

Words: 1,422

For further information contact:

CGF Research Institute (Pty) Ltd
Terrance M. Booysen (Chief Executive Officer)
Tel: 011 476 8264
Cell: 082 373 2249
E-mail: tbooyesen@cgf.co.za
Web: www.cgf.co.za

Jene' Palmer (Lead Independent Consultant)
Tel: 011 476 8264
Cell: 082 903 6757
E-mail: jene@palmer.co.za