Parameters for Board Effectiveness
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Structure of the session

- Introduction
  - Research Team
  - Research Approach
  - Data Collection
  - List of Journals surveyed

- Parameters for effective boards
- Next Stage
- Questions
Introduction
Research team

- Georges Selim, Emeritus Professor (Team leader)
- Sally Woodward-Selim, Senior Visiting Research Fellow
- Julie Verity, Visiting Research Fellow
- Eliza Brewka, Research Assistant
Research approach (1)

➢ No agreement exists on the best framework for identifying, measuring and discussing characteristics of effective boards.

➢ For example the focus for:
  ▪ **economics literature** tends to be on formal structure (designing optimal incentive and monitoring structure);
  ▪ **law literature** is on means of creating and enforcing governance rules and regulations for social benefit;
  ▪ **behavioural science** written by researchers in strategic management and organisation theory includes power issues between and among key corporate actors, social networks; and psychology of decision making processes.
Research approach (2)

The approach we followed in our research was to present the summary of the literature review using four main headings:

- Structure
- Process
- Board Behaviour
- Socio-economic, legal/political, and institutional factors
Data collection (1)

Based on the research remit, we approached this task by:

- Not trying to define high performance/board effectiveness but to accept our own interpretation of high performance/board effectiveness in not for profit making organisations such as the NHS as ‘the board delivering on its goals and objectives’.

- Selecting academic and professional business and management journals published in the UK, USA and Continental Europe.

- Searching for papers covering both theory and practice in both public and private sectors.
Researchers included in their initial search all management and business journals that are rated highly by the Association of Business School (ABS) together with those from the Financial Time’s listing of the Top 40 leading management and business journals.

Due to the limitation of time, the researchers restricted their search to papers published from 2000 to date. Only seminal work published before that date was accessed.

The next 3 slides present the listing of the journals accessed: the number of papers read were 184; and the number of papers selected for review were 89.
List of journals surveyed (1)

- Academy of Management Executive
- Academy of Management Journal
- Academy of Management Learning and Education
- Academy of Management Perspectives
- Academy of Management Review
- Administrative Science Quarterly
- Asia Pacific Journal of Management
- British Journal of Management
- California Management Review
- Corporate Governance
- European Business Journal
- European Business Review
- European Financial Management
- European Management Journal
- Harvard Business Review
- Heath Care Management Review
- Health Research and Educational Trust
List of journals surveyed (2)

- Health Research and Educational Trust
- Human Relations
- Industrial and Commercial Training
- ICFAI Journal of Corporate Governance
- International Journal of Business Governance and Ethics
- International Journal of Public Administration
- International Journal of Public Management
- International Studies of Management and Organization
- Journal of Business Ethics
- Journal of Business Research
- Journal of Business Strategy
- Journal of Financial Economics
- Journal of General Management
- Journal of Healthcare Management
- Journal of Health, Politics Policy and Law
- Journal of International Business Studies
List of journals surveyed (3)

- Journal of Management
- Journal of Management Inquiry
- Journal of Management Studies
- Journal of Organizational Behavior
- Journal of Public Administration Research and Theory
- Leadership and Organization Development Journal
- Leadership Quarterly
- Management International Review
- Management Learning
- MIT Sloan Management Review
- Organization Science
- Organization Studies
- Public Management Review
- Review of Accounting Studies
- Strategic Management Journal
Parameters for Effective Boards
Blockages to effective board decision making

- The illusion of invulnerability
- Collective efforts to rationalise
- Unquestioning belief in the board’s inherent morality
- Stereotyped views of rivals and enemies
- Direct pressure on dissident board members
- Self-censorship of deviation from apparent group consensus
- A shared illusion of unanimity
- The emergence of self-appointed ‘Mind Guards’
EFFECTIVE BOARDS
The ‘right’ structures

….this is twofold - a **board structure** which firstly meets international and national corporate governance recommendations; and secondly, one adapted to the company’s stage of development and its strategy. *It is only when these structures are synchronised* in this way that high performance is likely to occur.
The ‘right’ people (1)

- rigorous selection and re (de)-selection of the Chair, Executive and Non-executive directors are paramount in ensuring an effective team to lead the organisation.

- This implies that Boards must recognise which directors need help and support, which should not be nominated for another term, and which should be asked to leave or be de-selected.
The ‘right’ people (2)

- A crucial factor worth noting is that *competence* of board members is relevant and specific to organisational needs. This is coupled with sophisticated levels of *social and emotional intelligence* to enable members to work together in a small, intense and extremely important team.

- Particularly pertinent in the current climate is the importance of the reputation that NEDs bring with them to the organisation and how this contributes to the organisation’s brand and corporate identity.
The ‘right’ culture (1)

- This is very difficult to both identify and achieve. It underpins the ‘style of meeting’ and ‘style of debate’ that takes place in the boardroom.

- The degree of formality and openness to critical but constructive debate illustrate its influence on the decision making process.

- However, whilst difficult to describe and pre-scribe, this parameter is dominated by ideas of trust and integrity; an openness to challenge combined with a willingness to collaborate; and demonstrable commitment, motivation and interest in working hard to deliver against accountabilities.
The right culture (2)

- There is a subtle balance of paradoxical skills required to get this culture ‘right’ and a diverse set of interpersonal skills and attitudes required to create the right cultural alchemy.

- The required culture is often bought to life by contrasting it with that of the ‘wrong’ culture of the past, which is described as the relaxed ‘old boys club’ created out of cronyism. Hence the metaphor for the ‘right’ culture is a modern, responsible ‘professionalism’.

- Achieving a culture of professionalism that is both technically competent and skilled at understanding the complex paradoxes required from the board, will become even more important and gain greater focus given the current global crisis in the financial sector.
The ‘right’ tasks and issues for debate by the board

- A majority of boards in both private and public sectors spend a disproportionate time on monitoring activities.

- The proper levels of engagement in monitoring and strategy formulation should be relevant and appropriate to the organisation’s changing issues and circumstances.

- The ability to balance both sets of activities and roles will require board members to display different behaviour/skill and knowledge sets and switch seamlessly from being ‘judges’ to being collaborators and supporters.
The ‘right’ information

- Effective decision making requires informed directors.

- The non executive directors rely to a large extent on the goodwill of management to give them quality information in a timely manner. Whilst building the behavioural skills of outside directors could mitigate for their dependence on ‘goodwill’ alone, i.e.: with a culturally trusting and respectful team, executive directors should be open to hearing the counsel of their fellow team members and recognise the benefit of constructive challenge and insightful contribution.
The ‘right’ process

- An effective board presumes some procedural aspects such as:
  - frequency and duration of board and committee meetings;
  - level of attendance by board members;
  - voting procedures;
  - and formal powers of the board which all underpin the working of the board.

- Whilst agenda management seems mundane and in some boards directors may not see their role as setting the agenda, it is worth remembering that:
  - Agendas...dictate what the board of directors discuss and at what length. To control the agenda is to control the work of the board.
The ‘right’ remuneration

- Remuneration policy on level of remuneration will influence the quality of candidates applying to join the board and level of commitment of time and other resources delivered by directors of the board. Put another way, remuneration levels need to be fair, equitable and comparable with similar posts in the industry.
The ‘right’ follow through

- Boards need to evaluate three elements:
  - board composition
  - board working and
  - individual board members.

- Board building is an ongoing activity, a process of continuous improvement, which means boards must keep coming back to the same questions about purpose, resources and effectiveness’
Next stage

To gain funding which will allow us to:

- carry out interviews with board members, Executive and NEDs across a range of organisations in the private as well as the public sector.

- take this study into national and international organisations.

- be able to use descriptive and inferential statistical analysis in support of our drive to identify the parameters of effective boards.
Questions?