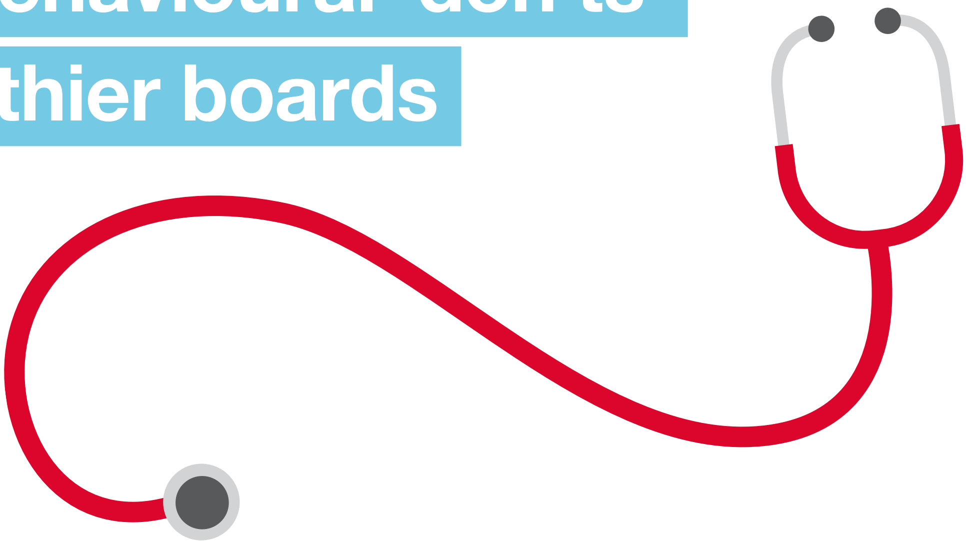
London Business School

Leadership Institute

Rethinking Leadership.
Enhancing Leader Impact.

Three behavioural 'don'ts' for healthier boards



It's time that boardrooms had a health check-up, says Randall S Peterson.

How to make boards more effective is an age-old question. Evidence-based research shows time and again that boards are critical for decision-making and that when groups rather than individual leaders are made accountable, it decreases a company's odds of scandal and failure and increases chances of success. But how well do boards perform against this ideal?

Research conducted by London Business School's Leadership Institute surveyed more than 650 non-executive directors and chairs from across the world. Our results indicate that boards around the world could do much better.

1. Diverse Thinking:
Don't Conform to the Pressure to Fit In

Research shows that a new point of view in a group not only challenges existing ways of thinking, but stimulates divergent thinking and better problem definition. For boards to be effective, members need to constructively challenge. At the same time, of course, a good board also has a role in supporting the organisation. In other words, a good board member is a 'critical friend' to management. To do this, board members need to feel two things simultaneously. First, they need to feel that they have a unique contribution to make (i.e., diversity of perspective amongst the board members), and second, they need to feel that they belong to the group (they want to be a part of the group and the group to understand the unique perspective or expertise they bring). Candidates are too often brought in primarily to 'fit in' with existing culture, which serves the feeling of belonging but does not serve the unique contribution point. And sometimes boards search for diverse perspectives, but do very little to make the new members feel that they belong there or articulate what the board values in that unique perspective.

So how effective are boards at finding diverse perspectives? The answer here is "could do better." Less than half of respondents have created internal commitments to diversity (43%) and only a third (29%) are using external search firms to assist them in identifying candidates from outside of their existing networks. The talent pool from which boards are drawn is often too narrow and the search begins and ends within a closed network. Not surprisingly, even where there may be some degree of visible diversity, that diversity does not always achieve different perspectives typically **associated with greater innovation and financial performance.**

If directors are appointed because they meet diversity criteria – say, race, expertise or gender – but they exhibit the same attitudes, skills and behaviours as the rest of the board, has the level of board diversity really moved on? Constructive conflict is a catalyst that drives change in a group, so too many "yes" people equates to slow progress. Worryingly, in our research, only half (49%) of board members feel that addressing diversity on their board is a concern.

Tip

You need to ask whether your board is inclusive as well as diverse. Board-member selection needs to embrace two seemingly contradictory ideas – candidates do need to 'fit in' but they also need to have a unique and relevant perspective. Great board inductions reinforce both similarity and difference with the rest of the board. Effective board members are able to engage in a rich, honest debate, offer differing perspectives and question each other – and they interact with each other as they would a friend.

2. Information Sharing: Don’t Expect the Right Information

One of my own areas of **research shows** that information sharing, broad participation, cohesiveness, clear decision-making processes and goal clarity all predict group performance. When senior executive teams collaborate effectively as a group, the company achieves better financial outcomes.

Alarmingly, **more than a quarter of board members repor** never having experienced an external effectiveness review, suggesting that many boards do not prioritise, value, and/or are not open to exploring how they operate as a group. One of the hygiene factors of high-performing teams is how they share information. This principle is not limited to how well board members share information with each other, it’s also far-reaching: the board must ask for the right amount of information from the business itself.

Be warned: when non-executive directors reach too far into the business (e.g., offering mandates on how things should be run), they often find themselves wading through irrelevant, granular detail. They need to strike the right balance between going in too deep and getting into management, balanced against being too high level and not really understanding where the business creates value.

Paul Myners CBE, who has been on the board of 12 FTSE 100 companies, offered clarity on the topic at a recent Leadership Institute event. He said that boards must receive appropriate information in a timely manner and recalled the best boardroom report he ever experienced.

“I was on the board of a company where the CEO’s English was not great,” he said. “As a result, the papers were short and more focused.” The snappy information meant that the board asked critical big-picture questions and took a longer-term view, he said.

Tip

Too many boards are drowning in too much meaningless information, meaning they’re unequipped to ask the right strategic-level questions. A good board will say, “This information is not helpful, we need information on X, Y and Z instead.”

3. Collective Responsibility: Don’t Just Defer to Experts

Our research asked non-executive directors and chairs from across the world: how comprehensive is your digital strategy? The results showed that 86% of boards struggle to set a digital strategy despite the clear need for a more integrated approach.

As a participant said at a recent Leadership Institute event: “You’re either a disruptor or you become disrupted.” More and more we are seeing companies battle their way through digital unknowns with the help of technical experts. CIOs are taking up boardroom seats as the “defenders of disruption”. But how should boards deal with such a high level of technical expertise?

There’s a danger that when technical specialists take up boardroom positions the rest of the board defers collective responsibility. Logic might suggest that the more experts the better, but in practice it can sap the board’s ability to make complex decisions based on effective integration of the collective members’ experiences, business acumen and sound questioning, in addition to technical expertise. Moreover, relying on a CIO can lead to ‘cognitive entrenchment’ by the expert – often, the more specialist a CIO is, the less able they are to flex their thinking to the broad and complex problems debated in the boardroom.

Tip

As with any technical specialty, it’s helpful to rely on expertise, but the board must also share collective responsibility. Consider upskilling the board through education, mentoring and discussion, or perhaps introduce specialist committees to bring relevant information to the board’s attention.

Conclusion: Having Curious and Inquisitive Board Members is Key

Great boards are composed of directors who bind together collective responsibility, better information sharing and diverse thinking. This is the very definition of what it means to be driven by curiosity and inquisitiveness. It takes a curious board member, for example, to question rigorously and assess underlying risk. An inquisitive board member will ask questions of, and listen carefully to, their colleagues who have differing views to their own.

In reaching for better boards, organisations must start to prioritise inquisitive and inclusive cultures. When “return on inclusion” becomes a business imperative instead of a nice-to-have, boards will accelerate their impact and create the kind of superior value their company and shareholders truly deserve.