Building Effective Boards

Welcome to the third edition of our Across the Board email governance newsletter and thank you for your positive responses. In this edition, we examine how to build an effective School Board or Council.

For many years, Independent Schools Victoria has focused on the Board’s primary responsibility – governance – which is dealt with in our Governance Handbook and also in our detailed Across the Board website content.

In this newsletter, we draw on other sources to respond to the question, ‘what makes an effective high performing Board?’ One answer is that better Boards don’t just happen, they are designed and created.

Different terms with similar meanings can be used when discussing governance in schools. For consistency we use the following:

- Board Member includes director, board trustee, governor, councillor
- School Board or just Board includes school council, board of management, governing body
- Chairman includes chair, president – it is an asexual term denoting the office, not gender
- Principal includes head, executive officer
- stakeholders include students, parents staff, alumni and suppliers.

Michelle Green
Chief Executive

Next Edition

In our next edition, we will be discussing board evaluation. Boards can use evaluation to improve their overall performance. Results from an evaluation can assist boards to:

- recognise and correct governance problems
- plan professional learning for individual Board Members
- shape future strategic directions.

We will discuss these benefits in more detail and review various ways to evaluate the work of boards and contributions by individual directors. Key areas to be included in an evaluation and potential issues will be identified.

I welcome your suggestions for future topics. Please email Brian Peck with your suggestions.
Welcome to the June 2014 Across the Board newsletter

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Introduction

Parents, regulators and the wider community are increasing their demands on Governing Boards to be more accountable. They have become more vocal and less forgiving. Reflecting this trend, Boards have also become more demanding of Chief Executives.

There are mixed views about Boards and how they operate. Are they inconsequential, meddlesome incompetent groups of competent people or do they contribute substantial value to the organisations they serve?

We examine School Boards as strategic assets and suggest how they could become more effective.

Key Questions

Underpinning assumptions about high performing boards are a set of key questions.

- What do stakeholders expect from a school and from the Board?
- What does the Principal need and expect from the Board?
- How do the Chairman and Principal define quality participation and contribution?
- Are expectations clearly communicated through an effective induction process and measured through regular individual and collective board evaluation?
- How does the Board or a Board Committee assess the competencies and skills needed for the Board?
- Are there well-defined boundaries between the Board and the executive so that oversight does not encroach upon operations?
- Does the Board have the strength and depth to steer the school through any critical incident?
Understanding the Board’s Role

To assess if a board is performing effectively, we must know what it ought to be achieving, that is the role of the Board.


1. The Board must shape the direction through its mission, strategy and key policies.
2. The Board needs to ensure that the leadership, resources and finances in place are commensurate with the vision.
3. The Board must monitor performance and ensure prompt action when needed.¹

Key Features of Effective Boards

The McKinsey report identifies key features of effective Boards.

- Good Boards are adept at understanding the external and internal context and shifting focus to respond to or anticipate changes in their environment.
- They develop an ‘independent view’ that helps shape the organisation’s agenda rather than simply responding to the views of management.
- The Board collaborates with the Chief Executive but still preserves the ultimate authority to make decisions.
- Strong boards excel at the basics, such as actively managing their composition and committee structure, running effective meetings, and making sure the right people are in the right jobs.
- High performing Boards will also periodically revisit the rationale for the organisation’s existence, clarifying the vision for what it wants to become over time and setting strategy. Good Boards generate vibrant discussion about key strategic issues.
- A dynamic Board can weather change and build for the future.
- Priority-setting helps Boards be more forward looking and minimises the risk of making decisions on where to allocate their time on the spur of the moment.
- Organisations should commit to improving performance measurement. The progression from measuring activities to measuring efficiency and ultimately to measuring effectiveness and outcomes is an extended journey. The Board’s involvement in performance measurement is not a license for it to meddle in operational details but it should be a decision-making group.²


² McKinsey, P6-42
Key Qualities of Boards

It is relatively easy to find Board Members with the right skills and experience but it is harder to determine whether they are able to work together as a whole. The board culture, power games and strategising techniques can all impact on board effectiveness.

Good governance is as much about culture, values and behaviours as about policies, processes, systems and compliance. A good Board requires members with specific skills and experience. Its performance will almost always be assisted by good structure and process, however, the crucial ingredient is the quality of human interaction.

As one author stated… ‘No structural remedy can overcome poor judgement or apathy. At the same time no amount of individual character can overcome accountability without responsibility’. (Daily and Dutton, 2003).³

A report for the OECD on the corporate lessons learned from the global financial crisis (Corporate Governance: Lessons from the Financial Crisis, 2009) places a good deal of blame on Board directors for failing to properly supervise risk management and incentive systems that encouraged high levels of risk taking. These deficiencies point to ineffective board oversight.⁴

A follow-up report (Corporate Governance and the Financial Crisis: Key Findings and Main Messages, 2009) states:

   It appears difficult and perhaps impossible to find a silver bullet in the form of laws and regulations to improve board performance. This leaves the private sector with an important responsibility to improve board practices through inter alia, implementing voluntary standards. The objective should be to facilitate the creation of competent boards that are capable of objective and independent judgement.⁵

A similar investigation in the United Kingdom (A review of Corporate Governance in UK Banks and other Financial Industry Entities, Nov. 2009) recommended that Board directors be ready, able and encouraged to challenge and test proposals on strategy presented by the executive. This review also strongly recommended regular board evaluations and better disclosure to investors about the evaluations.⁶

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Enablers of Dynamic Boards

The McKinsey report identified four key enablers of creating a dynamic board and to ensure effective delivery of the core functions:

1. careful decisions on Board size and composition
2. actively managing Board composition
3. inspired Board and committee leadership
4. simple administrative practices and processes made routine.

While these enablers are more common sense than revelation, they indicate that the boards of high performing not-for-profit organisations must be committed to making sure that the small things are done well.7


Governance Standards

Sources of governance standards and principles include:

- ACNC, Australian Governance Standards Guidance
- ASX Corporate Governance Council, Principles of Good Corporate Governance and Best Practice Recommendations

There is considerable commonality in what is considered as essential characteristics for the creation of effective board governance. They cover the following ten areas:

1. board culture
2. decision making processes
3. agenda
4. educating the board
5. leadership: Chairman
6. leadership: Principal
7. board composition
8. school performance
9. board performance
10. risk oversight.

1. Board culture

A board room culture of respect and openness will encourage debate and facilitate effective decision making. An adversarial atmosphere associated with conflicts of interest or factional groupings can generate a dysfunctional Board.
Many boards espouse the values that underpin the vision and mission of the school. They also need to relate these values to their behaviour as a Board Member. A code of conduct and conflict of interest requirements should be understood by board members and applied consistently.

2. Decision making processes

Clear meeting procedures will facilitate the best use of Board Members’ time. Clarity about who makes decisions and at what stage in the development and implementation of policy and strategies will assist in the demarcation between governance and management.

Clear lines of reporting from Board Committees and the Principal will contribute to more effective meetings as will consistent application to agreed meeting procedures. Management of the information flow between the Board, management, the school community and government will facilitate effective decision making and discussion.

3. Agenda

Some experts consider the agenda constitutes the single most powerful tool for either empowering or emasculating the Board. Suggestions for board agendas include:

- The Board should avoid becoming a passive recipient of information and give priority to key strategic issues.
- Too much operational information encourages a focus on operational matters.
- The agenda should separate policy and strategic items and monitoring and reporting routines.
- Board Members should have the opportunity to place items on the agenda via the Chairman.
- Discussion papers should stimulate and guide debate of strategic issues.
- An annual agenda needs to drive discussions on the strategic plan within the emerging context in which the school operates.

4. Educating the board

The capacity of the Board as a collective can be built by an effective induction process that includes a resource package, personal briefings by the Chairman and the Principal, supported by ongoing professional development of Board Members, both individually and as a Board. Members also have a responsibility for ensuring that their knowledge and skill sets are maintained and enhanced.

5. Leadership: Chairman

For a board to be effective there are probably two essential ingredients – a Chair who capably fulfils a board-leadership role and a CEO (principal) who wants the board to perform and sees the board as complementary to the CEO’s (Principal’s) work. Other blockages to board effectiveness can be removed if these two ingredients are in place.

The Chairman requires a wide range of skills, including the ability to coach new Board Members, manage board debates, identify and evaluate concerns and instigate behavioural change where necessary.
The Chairman should understand the scope of the Board’s functions and establish a positive working relationship with the Principal and Board Members. He or she should ensure that the boundaries between governance and management are clearly understood by all Board Members.

The Chairman should:

- clarify what support and feedback the Principal wants
- schedule consultation with board committees
- focus debate on strategic priorities in board meetings
- discourage discussion dominated by a small number or one Board Member
- deal effectively with dissent
- create a solid front to the outside world during critical incidents
- ensure that there is a succession plan in place for both the Principal and Board Members.

6. Leadership: Principal

The attitude of the Principal towards the Board helps shape the relationship. The Principal should:

- negotiate with the Chairman on how they will work together
- ensure that there is common understanding of the Principal’s role in relation to the Board
- agree on how and what the Principal will achieve within the year
- agree on how board meetings will be conducted and how often the Principal will meet with the Chairman – for example, weekly or fortnightly
- identify if and when the Chairman will be the spokesperson for the school.

7. Board composition

The skills, experience and knowledge expected of the Board and its members should be documented and used in the selection of members and performance evaluation processes. Gaps should be identified so that new members can be recruited.

The competence of the Board and of members should be reviewed regularly to ensure that it has the right mix of capabilities.

8. School performance

Standards prepared by the Australian Institute for School Governance incorporates a role for a Board in setting and monitoring the performance of the school. The following standards are an example of this role:

Student achievement

- In partnership with the Principal, the Board has established a shared definition of student achievement.
- The Board regularly engages in rigorous discussion about, and questioning of, student achievement.
- The Principal regularly provides data on student progress to the school board.
- The Board receives an annual profile of student achievement.
Strategy

- The Board has developed a strategic directions statement and monitors its implementation.
- The Principal has developed a strategic action plan for the Board’s approval.
- The Principal and Board have agreed on a schedule for reporting on the implementation of strategic actions.
- The Board has determined a financial plan for the long-term sustainability of the school and maintains oversight of this plan.

9. Board performance

Effective board evaluation can provide insights into the dynamics and strengths of members, leading to improved performance and effectiveness. Inadequate board performance is often explained from the perspective of non-compliance with regulations. While compliance is important to ensure the Board fulfils its fiduciary responsibilities, this one issue does not reveal actual performance of directors individually and collectively.

Questions associated with board evaluation include:

- Do members understand and agree on the key functions of the Board?
- Is sufficient time being allocated to allow functions to be being properly performed?
- Is there agreement on essential objectives and are they being achieved?
- Can the Board’s administrative and operating arrangements be improved?
- Are individual Board Members working well as a group?

Evaluation needs more than a tick-the-box approach. It requires evidence on board performance, the culture of the board and its ability to work effectively as a group. Self-evaluation can be undertaken or an external consultant used.

Opinion is divided on whether performance evaluation of individual directors is a valuable exercise or whether it can inhibit positive board dynamics and overall group performance, but there is a need to deal with individual board member performance issues. There is also the question of senior management involvement in the evaluation of the board. Some experts say it is essential.

10. Risk oversight

The Board should shape a risk management framework for the school and maintain oversight of its implementation through an agreed form of reporting via a risk register.

In summary, a guide to improving board performance includes:

- establishing clear accountability and leadership
- creating a performance committee
- identifying opportunities for board improvement
- discussing as a board the way forward
- prioritising areas requiring change or improvement
- agreeing on goals and creating an implementation plan with targets.

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Conclusion

We hope that these suggestions will assist boards to meet increasing accountability and transparency. Innovative practices are required to meet challenges and to take advantage of opportunities. Board improvement needs to take into account that a school is a living entity. Take care of Board Members – they are contributing their expertise and experience free of charge.

...board members do not have to limit themselves to the 30,000 feet view of the company. Vast amounts of data can be assembled on a regular basis to provide meaningful insight quickly...board members have a responsibility to dig deep, be curious and satisfy the baby boomer urge for the truth.9

9 Delves, D., Dashboards for Boards, Directors & Boards, First Quarter, 2012

References

- ACNC, Australian Governance Standards Guidance, August 2013.
- ASX Corporate Governance Council, Principles of Good Corporate Governance and Best Practice Recommendations, Australian Stock exchange 2013.
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- Delves, D., Dashboards for Boards, Directors & Boards, First Quarter, 2012
- Kirkpatrick, G., Corporate Governance and the Financial Crisis: Key Findings and Main Messages, OECD, June 2009.