



# Board Effectiveness - The next lever of value creation

The challenges associated with value creation drive all investors. Any investment professional is eager to make their mark by picking organisations that are able to deliver superior returns. Increasingly investors look into how organisations are governed and how effective the top decision-making bodies of organisations really are.

In this white paper, we shed light on research findings and reveal the seven hallmarks of effective boards. The seven hallmarks are proven to create more effective boards and are set to be the next lever in the value creation process. Better Boards has created advanced board evaluation tools designed to motivate and inspire and above all, contribute to superior value creation.



# What could boards achieve if they **unleash the talent** around the table?

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Given that those at the top of an organisation are the key enablers and drivers of value creation, it is quite surprising how little effort is presently put into the systematic development of governing and managing boards/teams.

Board evaluations and reviews could provide a sound foundation to kick-start the development process. However, we found that many board evaluation on offer are ill-suited. For board evaluations and development programmes to provide a return on investment and a positive impact on value creation, it is vital that they focus on the variables that are proven to have an impact on the effectiveness of the board.

When we analysed the final reports of board evaluation programmes we found that all too often they rely on variables that proved to be relevant in different contexts but no evidence exists that they are relevant in boardrooms, make boards more effective and contribute to the value creation process. More than that, some board evaluation programmes integrate psychometric tests that were developed for different contexts and yet are integrated into the design of board evaluation programmes. These efforts might produce “interesting results” that can be discussed and look impressive but will have little impact when the aim is to create more effective boards.

Recent research conducted by Better Boards has shown that effective boards share common traits that cut across size, geography and sector, providing a useful bellwether for investors wishing to optimise board performance. The traits apply equally to governing and managing boards such as those common in countries who have a two-tier board structure like Germany, as well as unitary boards and management teams popular in the United States and the United Kingdom.

Our conversations with investors also revealed that they call for a different approach to board evaluations and reviews. There is a universal dislike of box-ticking exercises which are viewed as time-consuming, a waste of monies and irrelevant. What’s urgently needed is a collaborative tool that helps boards focus and align around top priorities in the value creation process, while fostering greater agility and speed in decision-making. To create value amid complexity, boards need new guiding principles and practical tools derived from research and hard data going beyond observations, and anecdotes.

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## **Investors call for a different approach to board evaluations and reviews.**

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Unleashing the potential of boards for the value creation process means equipping members of boards and management teams with insights into the variables that really matter; insights that provide the foundation for the flexibility to respond appropriately and constructively to ever-changing threats and opportunities.

# The seven hallmarks of effective boards

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## Hallmark 1: Composition of the board

Engaged and effective boards are a complementary mixture of different skills, expertise, business experiences, perspectives, personalities, and behavioural styles. They've shed the homogeneity that leads to groupthink and reinforces shared biases. Adequate for simpler times, socially insular boards lack the versatility to handle complex new challenges. But our research confirms that diversity should go beyond adding women or minority group members to the board. Equally important is diversity of professional experience, subject-matter expertise, and "role behaviours," i.e. how an individual behaves in a group setting.



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## Hallmark 2: Ability to use the strengths of all members

Boards perform better when they take full advantage of each member's distinct strengths and personality traits. That means each member of a governing board and management team must understand what he or she brings to the table, and how it fits in with the strengths and behavioural roles of all the others. Effective boards conduct exercises to discover the traits and talents of each member, a process that reveals capability gaps and helps determine who should focus on which board activities.

In our practise, we've seen how this process energises a board and even spills over into management. Board members who know their unique capabilities and understand their specific roles show greater confidence in their decision-making and embrace new

opportunities more readily. Boards that capitalise on the strengths of each member can execute strategy more effectively, and achieve better results in ambitious value creation programmes.

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## Boards that **capitalise on the strengths of each member** execute strategy more effectively and achieve **better results in value creation programmes.**

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Recently, we worked with a high-profile board that was frustrated by the organisation's inability to resolve repeated customer service failures that were generating bad publicity and hammering the company's stock. Try as they might, an organisation couldn't bring their world-class capabilities to bear in a meaningful way. We advised breaking down the challenges into discrete components and identified the board members who could help managers solve each discrete component. We created a strength matrix that provided insights into who was best placed to resolve each separate issue. Within nine months customer satisfaction improved by over 60%.

### **Hallmark 3: Clarity of roles and responsibilities**

Ill-defined roles and unclear responsibilities—all too common among today's boards—leave members of boards unprepared to act effectively and unable to ensure that strategy is translated into execution and value-creation. An engaged and effective board assigns clear roles and responsibilities to every member, consistent with their distinctive strengths, abilities, and characteristics. A member of the board with overseas business experience might take responsibility for overseeing a company's foreign operations, while a technologist might help management develop a digital strategy.

Boards should re-evaluate assignments regularly and revise or add roles as changing conditions dictate. Duties also change when members join or leave the board. For example, when a top-flight financial executive joined the board of a leading company, she was assigned to lead the audit committee. The previous audit chair, an experienced HR executive, took on a new role helping the company develop a new philosophy on restructuring.

### **Hallmark 4: Joint vision**

Most boards will tell you that they have a common strategic vision for the organisation. Ask each member to articulate that vision, however, and you'll likely get as many different versions as there are members of boards. A board that doesn't agree on where it's going will have a hard time getting anywhere. In a recent assignment, we found that incompatible interpretations of strategic goals were preventing the board and management team from reaching agreement on certain important issues. As a result, they lost valuable time and missed important milestones of the value creation plan.

Effective boards allow no such strategic ambiguity. They align around a single vision and spell it out enough to guide board decisions and spur management teams to action. They make sure the vision is understood not only by all board members but also by managers and executives at least two levels down the organisational chart.

### **Hallmark 5: Ability to resolve conflicts between board and management**

Conflicts inevitably arise between the boards and the management team they oversee. Often these conflicts erupt during a crisis—a strike by company workers, perhaps—that calls for a rapid, unified response. If the board and management can't coalesce quickly, the situation may spiral out of control. Effective boards establish ground rules and mechanisms for resolving conflicts with management. Often, they designate a board member with relevant

Consider the case of a large company hit by a strike that interrupted deliveries and angered customers who relied on the company for daily service delivery. After the labour impasse had dragged on for several months, two directors with proven conflict resolution skills began working with management to find a solution. Within weeks, a settlement was on the table.

### **Hallmark 6: Structure and organisation of the work of the board**

Well-designed organisational structures and working processes enable boards to act efficiently and effectively, while poor structures and working processes can lead to paralysis. Effective boards understand that organisational effectiveness starts with a smooth operating relationship between the company secretary, the chairperson, and the CEO. They lay out a detailed road map for the year, a clear agenda for each meeting, and ground rules for interactions in the boardroom. They also thoughtfully schedule board work and meetings, aligned with the strategy, the value creation plan and challenges facing the organisation.

### **Hallmark 7: Regular reviews and reflection about the work**

Simply adopting a new set of operating principles won't assure consistently superior board performance over the long term. Effective boards take stock of themselves regularly, scheduling formal sessions to measure their performance against agreed-upon goals and benchmarks. They discuss what works and what doesn't, and consider new ways of improving their performance. Equally important are informal gatherings, where board members can connect on a personal level and gain perspective on their work.

Changing the dynamics of a board room can be a daunting task. While the Seven Hallmarks provide a positive framework within which to begin the conversation, a board will also need to devise an overall action plan to achieve ambitious value creation plans and secure superior returns for their investors.

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# A 5-step action plan for better boards

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## **Step 1. Integrate board development programmes into the value-creation processes.**

Successful board evaluation programmes start with an in-depth understanding of the company's strategy and value creation plans. These broader imperatives guide a fit-for-purpose board design tailored and aligned to value creation plans. In working with clients, we have seen first-hand how integrating board development in the value creation process, and strategic execution can accelerate change and deliver superior value.

## **Step 2: Get the evidence.**

Evidence-based board evaluation programmes require data and not opinions. Board evaluation programmes that don't gather enough data on the issues most pertinent tend to create structures and processes that don't improve performance. Evidence-based board evaluation programmes, by contrast, collect all the relevant data needed to build engaged and effective boards that achieve results and have a significant impact on the value creation process.

## **Step 3: Provide directors with real insight.**

Directors are time-pressed executives with little patience for undifferentiated, time - consuming data collection and abstract analysis. Board evaluations that distil evidence down to key data points that lead to concrete, specific, and actionable insights relevant to the role of each member of the board attract attention and get the buy-in of the board members.

## **Step 4: Provide individual feedback.**

Directors welcome constructive feedback in a neutral and confidential environment. In our experience, directors appreciate confidential, data-driven feedback on their performance and the board's overall effectiveness. A frank, confidential, and neutral exchange helps directors reflect on how they can increase their level of impact in the boardroom, add greater value and strengthen the board as a whole.

## **Step 5: Persevere.**

Agree on a framework and work at it. Use consistent data collection mechanisms to track progress and evolving patterns over time. This longitudinal insight forms a foundation for continuous learning by directors and senior management.



## About Better Boards

Better Boards [www.better-boards.com](http://www.better-boards.com) is an independent Professional Service firm in London that focuses on creating more effective management and supervisory board.

In the last few years, Dr Sabine Dembkowski has focused on creating more effective boards and top leadership teams. She is credited with having identified the 'Seven Hallmarks of Effective Boards' and having developed an innovative online audit tool. The seven hallmarks have been peer-reviewed and published in the US, the UK and across Europe. Sabine works with leading investors, listed organisations and growth companies to apply the principles of her research and achieved tangible results.

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