High-performing boards: what they are and why they are important

A report from GGI

GGI CEO Professor Andrew Corbett-Nolan and Principal Consultant Peter Allanson explore the notion of high-performing boards and set out how to create one

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We work to make sure that organisations are run by the most talented, skilled and ethical leaders possible and work to build fair systems that consider all, use evidence, are guided by ethics and thereby take the best decisions. Good governance of all organisations, from the smallest charity to the greatest public institution, benefits society as a whole. It enables organisations to play their part in building a sustainable, better future for all.

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# High-performing boards: what they are and why they are important

At GGI, we believe that a 'high-performing board' is an actual thing and not just an aspirational description.

It is a board that can demonstrate active, productive leadership in a way that the success of the organisation can be linked to how the board itself works. It is a forward-looking forum driving the organisation's strategy, harnessing the skills and insight of all board members and a valued asset to the executive leadership. It exemplifies the very best in good governance as a force for ongoing change, improvement and impact.

So high-performing boards are an established concept rather than just a general descriptor of a successful board. Much of the literature exploring this concept* has been developed at Harvard Business School (particularly, but not exclusively, by the academics David Nadler and Jeffrey Sonnenfeld) and by leading leadership catalysers such as McKinsey and the Boston Consulting Group.

High-performing boards need not be associated with high-performing organisations. Indeed, you often find them in organisations in turnaround, or where an organisation's purpose or market has fundamentally changed. It is at these crucial times in an organisation's life that a maintenance board will not do and can indeed be counter-cultural to an executive that needs to drive change and improvement.
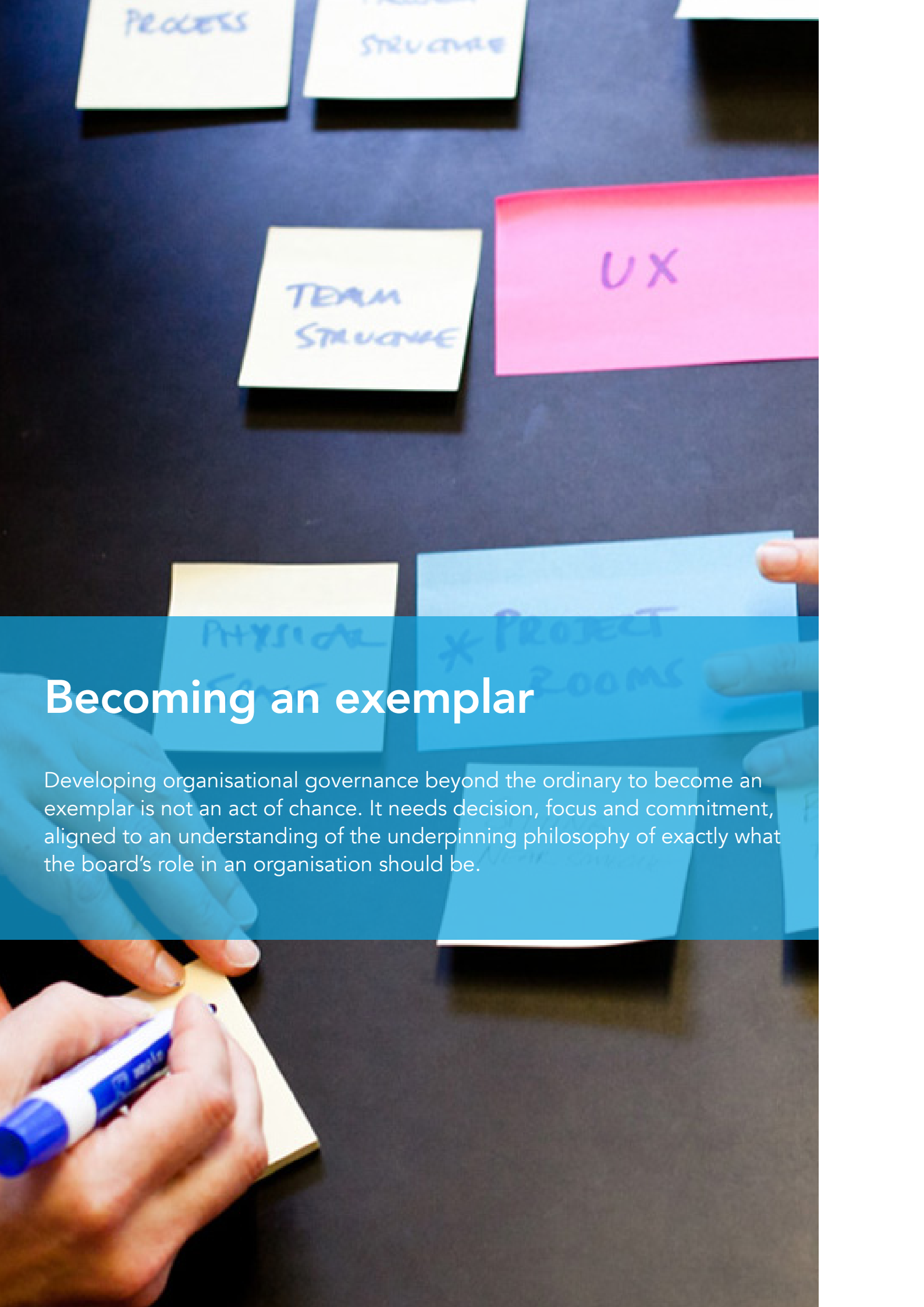
Becoming an exemplar

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Much of the work of GGI is grounded in the governance principles set out by the King Committee, which is recognised as the high-level authority for most codes of corporate governance internationally. Their four commissions (1994 – 2016) set a broad landscape as the basis for modern governance principles. King IV is particularly important as it speaks to governance impact and the four meaningful outcomes of good governance: ethical culture, legitimacy, strong control and value creation.

Public-purpose organisations operate within a largely conservative and reactive regulatory environment. Regulation will not get us to high performance, but that said within some regulatory requirements there are the germs of this improvement mindset. Health and social care organisations are regulated by the Care Quality Commission (CQC), which in partnership with others has developed an articulated framework describing the ideal facets of good leadership for the care-providing organisations they regulate called the well-led framework. This dovetails with modern governance principles but is framed as regulation requirements (comply or explain) rather than universal principles for thoughtful application (apply and explain). More specifically, NHS providers operate under NHS England's Code of Governance for NHS provider trusts , which owes much more to the work of the King Committee and the Financial Reporting Council than it does the well-led framework. If NHS organisations adopt this it will certainly make a difference to their governance output.

Regulation across the sectors

The regulation of other public-purpose bodies is less explicit than CQC's requirements. The Office for Students is almost mute on board (council) leadership of higher education institutions. The National Housing Federation states that its standards set out 'the key tasks involved in effective strategic leadership' without saying much in detail

about how the board needs to conduct their work to achieve this.

The Charity Commission Code of Governance provides some specific detail and has a section on leadership but hints at expectations rather than suggesting ways in which a board should be working to become an exemplar that is demonstrably adding value to the organisation it serves. The thinking behind the high-performing board concept therefore is a much more useful North Star for boards for boards committed to themselves making a difference than the various regulatory codes. Along with boards themselves those reviewing boards should also understand this and embed this into their review methodology.

Boards serious about adding real value need to frame their own development through the lens of improvement, and aspire to be a high-performing, value-adding board. To gauge what might be needed to establish a high-performing board, we believe it is worth describing some examples of the theory behind good governance as a baseline against which to measure your current achievement and to prompt thinking about what may be needed to progress.

Governance theories

There is now a considerable body of material describing governance, including the Corporate Governance Code published by the Financial Reporting Council. While it applies primarily to listed companies, the principles it promotes are relevant to most corporate organisations, including those in the public sector.

The key facets, slightly adapted, are:

- A successful organisation is led by an effective and entrepreneurial board, whose role is to promote the long-term sustainable success of the organisation and contribute to wider society.
- The board should establish the organisation's purpose, values, and strategy, and satisfy itself that these and its culture are aligned. All directors must act with integrity, lead by example, and promote the desired culture.
- The board should ensure that the necessary resources are in place for the organisation to meet its objectives and measure performance against them. The board should also establish a framework of prudent and effective controls, which enable risk to be assessed and managed.

- For the organisation to meet its responsibilities to stakeholders, the board should ensure effective engagement with, and encourage participation from, these parties.
- The board should ensure that workforce policies and practices are consistent with the organisation's values and support its long-term sustainable success. The workforce should be able to raise any matters of concern.

The principles and outcomes achieved by good governance apply to all types of board. Governance is the prime system of control and accountability that modern organisations rely on. All enterprises, whether public bodies, companies, charities, or other organisations, are legal personalities, brought to life by their directors, who control and are accountable for the organisation. Directors are responsible for applying governance principles in a way that suits the organisation, respecting any compliances that are a necessary condition of operating and the interests of stakeholders. Their focus always should be on what is essential for the organisation to succeed.

This shared understanding and commitment to good governance is fundamental because your future success depends primarily on the board, managerial and team leadership using the discipline and practice of good governance as an essential means of achieving your goals. Good governance only succeeds when there is a symbiosis between the board and the executive, who all understand, own and value the core means by which the organisation is controlled.

Beyond compliance

Governance is not just a matter of meeting externally demanded compliances or having action plans, important though these are. The core of success comes from a joint commitment and appreciation of the added value and impact that governance should bring. This can be expressed as high-value outcomes mentioned above that can only be created by good governance and are set out in the diagram below, which is taken from the King IV report on corporate governance.

Governance is a system for funning an organisation that requires those responsible to:

▶ Apply the principles of governance and explain the rationale for them- not just comply with the rules of others and explain any differences

▶ Identify the organisation's controlling mind - the individuals who are accountable, who have been selected as having the skills, experience and credibility to be responsible for stewardship and decisions

▶ Establish transparent decision-taking processes that are evidence based, and take into account the likely impact of decisions on all relevant stakeholders

▶ Deliver benefits and impact with meaningful outcomes

▶ Recognise the stewardship of different capitals that produces sustainable benefits that build economic, social and environmental value

Governance and outcomes

"Our organisation has a soul as well as a mind and a body – we conduct ourselves thoughtfully and ethically"

"We perform in a way That adds value to all our stakeholders, with measurable economic, social and environmental benefits"

Ethical culture

Adding value

Meaningful outcomes of good governance

Legitimacy

Better control

"The decisions we make are respected and prevail because we are seen as credible, we have been guided by evidence and we are trusted to have thought through the impact on all relevant stakeholders"

"As stewards of various resources we can demonstrate how we have effectively applied these capitals in a planned, effective way"

Fig I - Modern governance - improvement principles for boards

By striving for these outcomes of governance, organisations can enhance their overall performance, mitigate risks, build trust with stakeholders, and achieve long-term success. This requires a proactive and holistic approach to governance that goes beyond mere compliance with regulations and embraces the principles and practices that drive sustainable and ethical organisational behaviour. The board can deliver holistic benefits to their organisations and its stakeholders and, collectively, become both the 'controlling mind' as well as the 'controlling conscience' of the organisation over which they preside.

How can a board achieve this? Clearly the board must focus on what as the board can uniquely contribute to the organisation. There are six domains that are essential to the progress towards the outcomes described in Fig II below:

Governance domains

Vision
The agreed point of the organisation or what the world would miss if the organisation did not exist

Stewardship
Directors of governing bodies are responsible and accountable for the welfare of an organisation which does not belong to them, and for which they are transient caretakers. They will pass this responsibility on in time to others with the enterprise concerned improved and in better shape than they received it

Strategy
The agreed plan, with specific goals, which will most effectively deliver the mission and vision

Transparency
Ensuring that at any time the organisation can be open to external scrutiny and explain its conduct, decisions and managerial approach and that these would be found to demonstrate an ethical and evidence-based approach

Leadership
The agreed way and form through which the organisation will be led, ranging from the selection of the managerial leadership, through to setting and epitomising the organisation's culture

Assurance
The ongoing process of agreeing policies and then continually checking their compliance, on behalf of the organisation and its stakeholders, to ensure that the enterprise is moving toward its srategic goals while at the same time uphelding the agreed leadership principles and organisational culture

Fig II - Governance domains

Taken together, the concepts of good governance and the high-performing board help boards to balance their agendas so that they can authorise the executive to deliver the business, having been assured that all policies and plans are set to deliver the strategy and day-to-day operations. We discuss assurance, a somewhat misunderstood term, further down.
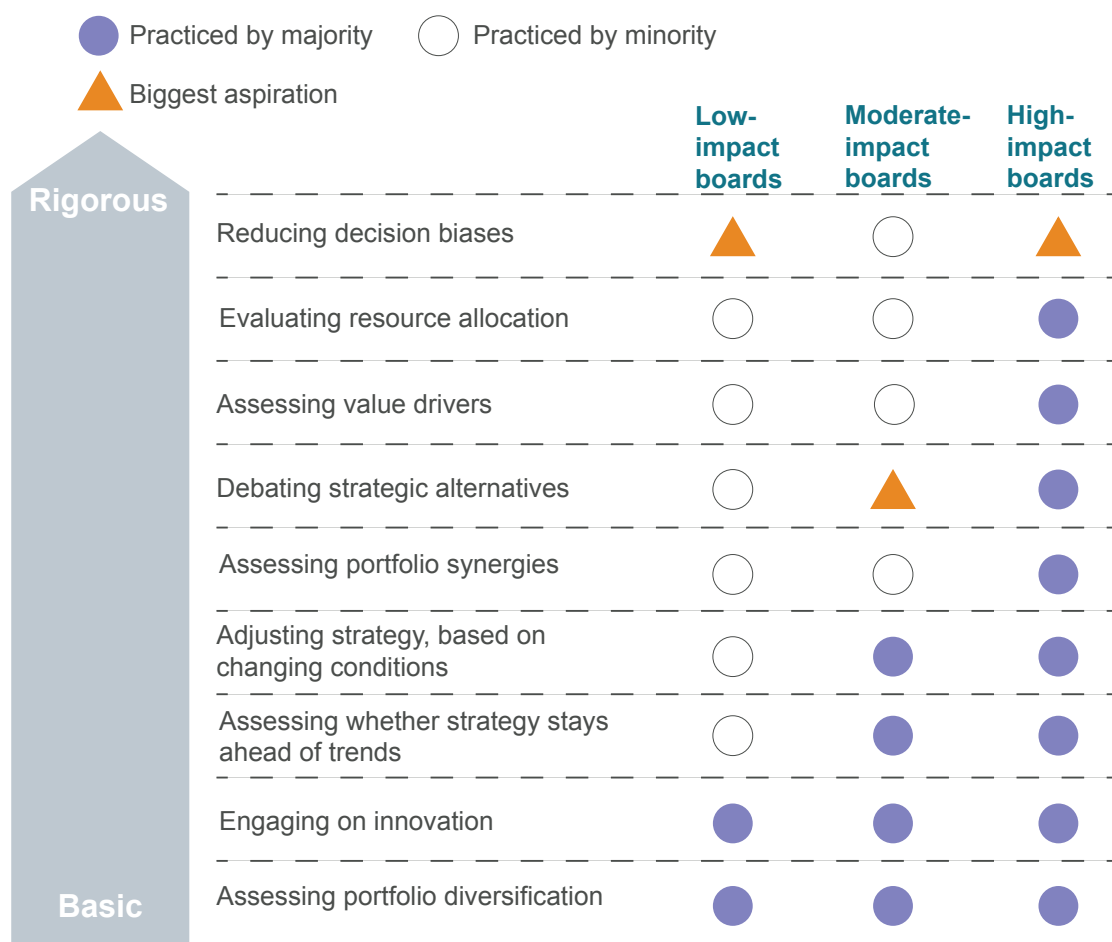
Robust, effective social systems

In practical terms, what distinguishes the high-performing board is that they are robust, effective social systems. This does not happen by chance – it is deliberately built by:

- adopting the virtuous cycle of respect, trust, and candour, and showing professional curiosity
- valuing a culture of open dissent
- encouraging a fluid portfolio of roles, with directors avoiding falling into either discipline-defined portfolios or personality stereotypes

- taking individual accountability and viewing the role of the director as requiring the highest levels of professionalism and ethics
- ongoing performance evaluation of both the board and individual directors.

This in turn looks like the following diagram, which sets out the nature of the business discussed by a high-performing board:

	Low-impact boards	Moderate-impact boards	High-impact boards
Reducing decision biases	▲	◯	▲
Evaluating resource allocation	◯	◯	●
Assessing value drivers	◯	◯	●
Debating strategic alternatives	◯	▲	●
Assessing portfolio synergies	◯	◯	●
Adjusting strategy, based on changing conditions	◯	●	●
Assessing whether strategy stays ahead of trends	◯	●	●
Engaging on innovation	●	●	●
Assessing portfolio diversification	●	●	●

● Practiced by majority　◯ Practiced by minority　▲ Biggest aspiration

Rigorous → Basic

Example: strategy practices　　**McKinsey Global Survey - Bhagat and Kehoe 2014**

Fig III - High performing boards

So, for a public purpose board this begins to look something like the following:

- Produce forward-focused, value-creating board agendas that focus on strategy, and oversight of risks.
- Set risk appetite and delegate to management, committees and partnership boards within defined risk tolerances.
- Ensure clarity of roles – make sure the right decisions are made at the right level and avoid duplication. Ensure clarity of reporting and information lines.
- Take decisions based on evidence – triangulate data, include in all stakeholder perspectives, be pragmatic about data availability, ensure data requests are necessary and sufficient.
- Provide assurance throughout the process – not including non-executives at an early stage results in reactive and less influential challenge, rather than helping to improve plans.
- Facilitate high-quality debate that builds trust and ensures different points of view are actively sought. Avoiding groupthink is essential to making good board decisions.
- Provide performance feedback to directors with their contributions assessed annually, accompanied by follow-up actions and coaching if necessary.
- Discuss conflicts of interest candidly and include them in board development.

There are practical steps that boards can take in terms of how they work:

- You could helpfully set out what you believe good governance means in terms of meaningful outcomes within your organisation, why it matters and what you expect to deliver over time, and report on either regularly or periodically. Particularly other organisations you work with as part of collective endeavour we encourage you to work through how you achieve value creation (which goes much further than just good performance).
- What should the defining characteristics be of the relationship within the board between executives and non-executives? You might develop a suite of shared narratives to describe the 'compact' between you.
- How can you establish a governance culture that sets the right tone and solidifies the board's leadership position?
- How do you measure progress towards achieving this cultural change and what are the implications for the organisation as a whole?
- Above all, how is the board discharging its role in a way that works to amplify your stated improvement aims? Are you governing improvement for yourselves, or stasis on behalf of others?

Finally, and particularly in public purpose organisations that operate within a regulated environment, boards need to work through the concept of the 'licence to operate' that forms the compact between the executive and the board. As is clear from the role described, boards should spend most of their time looking forward and being clear where they are steering the organisation. They can only do this if they are confident that the organisation is doing its day job properly, and meeting its regulatory, statutory and organisational goals. To achieve this confidence, the board must be assured that this is the case. From the illustration above there is a clear distinction between reassurance and assurance (and indeed assurance and performance) that boards need to understand.

High-quality information

Part of the process of assurance involves the executive providing the board with the highest quality information, featuring data that has been interpreted and a commentary drawing the board's attention to those issues of particular concern it should devote time and effort to. It is of course open to members of the board to interrogate the information to satisfy themselves, but the hallmark of a mature board is the trust between the parties that the executive can be relied on to escalate, alert, and assure.

Reassurance

Assurance

Reassurance		Assurance
"Is it okay because management says it is?"	"Is it okay because management have responded to questions from the board and this has given me confidence?"	"It is okay because I am confident on the reliability of the process to develop the information?"
Strong management personalities may dominate.	Clear and logical explanations from board members. Information rather than data. Use of quantitative as well as qualitative information.	Independence of information source.
Track record of success.	What has happened, why it happened, and the response.	Evidence of historic progress, outcomes and impact.
Professional background or expertise.	The information was tested through constructive challenge. Management explanations are consistent.	Triangulation with other information – this builds into a consistent picture.
No contradictory evidence.	Presentations and discussion not just from executive directors. An opportunity to question staff below executive director level.	The information was developed by and has been scrutinised in valid forums and by people skilled and experienced in doing this.
Reassurance about systems and their reliability and not performance.	The process for delivering the information was scrutinised.	Plausibility through comparison with benchmarks or heuristic understanding.