Top Governance Questions

Two of Canada's leading advisors and trainers in Board Governance dialogue
about the top Q's they see being asked amongst Boards today.

Lyn McDonell   Doug Macnamara

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Doug Macnamara – Renowned in Canada and internationally for work with Boards in the Corporate, Professional Associations, Health Care, University/College, Government, Aboriginal and NFP sectors. Doug holds his Certified Management Consultant (CMC) and Certified Human Resources Practitioner (CHRP) designations.

Recently, Doug & Lyn sat together to review the top issues and questions being addressed by their clients and other organization's Directors that have participated in their various programs and conference sessions. The top 3 Questions or areas of concern identified by Lyn and Doug are identified and explained below.

Top 3 Questions for Boards Today:

	Lyn's	**Doug's**
1.	Models of Governance - How do we know what is <u>best</u> for us?	How does our Board truly add value to the organization We govern?
2.	How do we get our Board "up" to thinking and working at the Governance level?	How do we identify and better manage the Risks of our organization?
3.	What is the best use of our limited time for Board service?	How do we deliver the improved Accountability & Transparency expected by our stakeholders?

Lyn: I feel that today there is a heightened sense amongst Board members that we need to do our Governance work better. We are also seeing a "generational' turnover – a new, younger group of Board members without experience and frankly, without much exposure to the complex, governance level aspects of guiding organizations successfully. This new group is more challenging of the CEO and executive team – they want to make a difference and see impact from their Board service. They really "lean forward" at Board meetings and want to engage – to break through the "hum drum" of Board business and get to a higher level.

This is different from those I have observed from the previous generation who were more "lean back" Board members – they saw their role as that of wise counsel and/or stewards for the CEO and executives to consult with, but not to take a direct hand in the day-to-day leadership of the organization.

Regardless, Boards and Board members are asking Questions about how they can do their work better.

Doug: Societal expectations have shifted from the past to today. Our Boards today are being expected to be more vigilant and higher quality. Sarbanes-Oxley or the new Canadian Securities regulations, the media coverage and investigative journalism of organization Executives or Boards where things have gone askew, are really challenging the "lean back" approach.

Now, the potential for embarrassment or image disaster is a huge risk for Board and Board members. There is more competition for funding, donor dollars and/or investors – and the funders are smarter – they are asking tougher questions, doing more due diligence before they give an organization their money. In the corporate sector 'return on investment" has always been important – and investors don't want to be surprised by scandal or inability to sustain profitability and innovation advancement. But, in the not-for-profit sectors as well, whether government funding, foundations or individual donors, they are also looking for tangible "return" on their investment –and they want to know that the Boards are ensuring prudent governance so that their funds will have appropriate impact in the community.

It takes more time to be a good Board member these days, and Governors are asking questions to help simplify a complex, difficult and time-consuming part-time endeavour (whether paid or volunteer).

Q. Models of Governance – What is the best model for our particular organizations, and what are the different options out there?

L -   Models are initially helpful to sort out who does what. However, this quest for the perfect model is symptomatic of looking for the *fast answer*. A Models-focus can obscure a real focus on the responsibilities of the Board – its own results. "Form" can trump "Function" in this search..

D -   I agree. However, our colleagues feed this quest! There are many consultants and academics out there pushing different approaches and *their* model. Carver was the first and very influential. It had the benefit of really clarifying some important fundamentals, especially the separation of Governance duties from that of Management. But, it also caused some real difficulties in implementation.

L -   What is the issue/problem with Carver? What I've heard is that it is like doing "Governance in a Bubble". It's not a particularly 'open system' where the Board truly appreciates the system or network in which the organization is working. As CEO's provide exception reports and assurance of compliance, the world can go by without real dialogue and exchange of what is happening outside and beyond ("Generative work"). Board and staff can get so focused on reports that they lose touch of the bigger picture. A focus on Ends is not the same thing as good, thorough strategic thinking and dialogue.

D -   I think the Model issue is deeper. It may be unfair to single out Carver – though I too have been hired many times by Boards experiencing implementation difficulties with it. In fact, any Model or Plan is only as good as its implementation. And there's the rub! Just grabbing for a Model without thinking about your organization and having a deep conversation about what unique intentions you have for Governance in your organization, this will surely lead to problems. Many Boards will latch onto a Model, spend months or years working on Policy or Structures, only to reach the end then ask, "OK now what do we do?" Of course, the answer is well, you need to be doing the Governance things you haven't been addressing all the while implementing some new Model.

A couple of my recent clients who have wrestled with the Model issue have had some really difficult, time consuming, challenging, emotional, somewhat political, but *real* – really engaging dialogue. The result is something particularly fitted to the organization, and one that will survive now for many years into the future.

We also need to realize that many of the traditional models provided by lawyers and/or those many of us have grown up with, were established in the 1800's! As mentioned earlier, the demands of 2010 and beyond are different than those of even 10 years ago, and even moreso than 200 years ago!

Just adopting a Model and fitting into its template short-circuits the really important introspection and understanding of Governance including things such as: who really is your community to whom you are accountable, and what do they expect?

L -   Models (Carver or otherwise) can provide a Board with a structured way to think things through. Most models inherently look at only pieces of the overall Governance responsibilities and work to be done, and tries to simplify things. While this can be helpful, we also should be lifting Board members "up" to being able to deal with complexity and understand multiple dependencies, inter-relationships and dynamics. A Board should actually be thinking of combining elements from a variety of Governance Models and approaches into one that is adapted just for them.

Q – How does a Board truly Add Value to an Organization?
   [A sense that there is an expectation to <u>enhance</u> the org. vs. just protecting shareholders/stakeholders]

L -   OK, so are you saying that just doing the regular Governance responsibilities is not value enough? Are we looking for Boards to do something plus, plus… beyond the basic value?

D -   Well, I suppose that depends on what one defines as the "basic" Governance responsibilities/work! There is the image of a "traditional Board meeting" where the Board assembles and sits around:
- listening to reports from Management
- providing or listening to Board Committee reports
- watch the odd presentation from staff or an external interest group on an initiative
- look at finances of course
- adding their opinions or questioning the presenters about various elements in their reports

BUT, this is <u>not</u> the only work of Governance today!

Critically important and value-adding work of Boards also includes:
- Strategic Sense & Framing for the Organization's future sustainability/growth
  - Understanding and dialoguing with Management about the industry/community/client dynamics that will affect the business in the coming 3-5 years
  - How we fit into an evolving sector/marketplace

- o Identifying likely "shifts' in expectations, considering Scenarios and/or Risks to prepare for in upcoming planning and operational/innovation endeavours

- Engagement with Community
  - o Focusing on the uniqueness of the organization and the 'value' it has to community
  - o Interfacing personally with community members, influencers, etc. asking questions in an organized manner to really understand how the organization we govern is perceived

- Board as Wise Counsel
  - o Back to your earlier comment – providing advice to the CEO & Management team
    Now we are seeing a tendency to pull away from management, provide independence and hold CEO accountable for results. The CEO can be fallible, but not the Board! I think this is a dangerous over-reaction to new legislation, rules, etc.
    Also, how does a Board provide meaningful advice to a CEO who lives the business 24/7/365?

L - All great points Doug. We rush our Board meetings, drive through agendas and crunch through reports against timelines that are always too skinny. Where's the wisdom to be found in Governance today? Do Board members really do their homework, engage with community, understand their industry, etc. well enough to provide wise counsel or give advice? Really; how do they add value? This is a lament I hear from many CEO's I work with. They regret that sometimes it seems to be solely their job to make the Chair and the Board effective!

D - Exactly my concern! It takes a lot of time now and considerable work for Board members to really understand the "business" of the organization, and the operating environment; to appreciate the complexity of issues and the decision-making fabric the CEO is facing. As a Board member coming from outside the industry of the organization you govern, chances are the reality faced by the organization is quite different from what you have come to "know" from observation over the past 10+ years of your career/life.

Most of the work of Governance happens away from the Board table - in Committee work or Community Outreach, or Interaction with Influencers, politicians etc., or in Risk Assessment & Scenario Planning, or in reading/learning the business & industry interconnections/dynamics.

Opinion-rendering or Activist motion-submitting is certainly not Value Add. Neither is wrestling on behalf of a constituency or riding an emotional/personal hobby-horse.

Governance Value today (and Fiduciary responsibility) is much more about collegial exploration and consensus-building about issues of substance that will advance the organization and improve its impact with customers/clients, community members, and shareholders/stakeholders.

L - I'm not sure that activism is necessarily bad if channelled properly; however I do agree with most of the above. And, this calls for a different kind of Board member and Board training:
- To be engaged appropriately and in-turn to engage community in dialogue
- To take initiative but with a broad/higher perspective
The CEO's say they would prefer their Boards to be strong and confidently leading the organization and (much as they admit they might regret this strength later) holding their feet to the fire – instead of what seems to be a dependency on the CEO's interpretation of the world. But strength and confidence by a Board and its members HAS to be balanced by comprehensive understanding and diligent work.

Q – How do we lift "up" the Board and Board members to Governance Thinking (out of Operational)?

L -   Well, now this is part of the success and attraction of Policy Governance – because it lifts a Board up to the policy level! It gets the Board to look beyond single incidents and develop guide-posts on matters that might arise – before the organization actually faces them. This is both useful and important.

D -   At the risk of offending… Policy, schmolicy! Really now, good Governance today and into the future is about a LOT more than just creating policy.

L -   True! It is as we have been discussing, about deeper, more meaningful conversations.
        But we have to lift up those conversations to a more Macro level.

        To lift up a Board we have to see the organization as a system, within a bigger system of systems. To Banff Executive Leadership's credit – this is where you have been co-creating new perspectives with Boards. Helping Board members see that Boards should be externally focused, shapers of dynamics more widely, and not just reactive in their environment. These explorations of new perspectives bring deeper insight, and thus better dialogue – dialogue that is at a higher level and not just trivial.

D -   Practically speaking, Boards just have to operate differently too. Rethink the Board Agenda, work-out an Annual Board Calendar so that key discussions are spread out throughout the year, and ensure all the important work/perspectives of Governance are attended to on an annual basis.
        - Agendas should be constructed with time for learning/development at every meeting
        - The way Questions get framed by the Chair in opening a new/existing agenda item need to be carefully considered to lift up the discussion out of the mundane and invite insight.
        - Levels of Consensus or similar mechanisms can enhance dialogue and understanding of different perspectives, while allowing for effective time management.

L -   Exactly right – this is also about good conversation design isn't it? The Chair and Exec Committee need to have the Board address the important things beyond operations discussion, which are more easily understood and tangible. Another key to lifting the Board up to a higher level of dialogue, is having a thorough Orientation for new Board members. Orientation needs to include:
        • Understanding the programs, services, and products of the organization, its client demographics/geographics, key employee leaders and external partnerships, etc.
        • How the Board works, committees, decision-making, regular risk and operational issues Board Agendas, and more. These first two are pretty standard (at least the first one), but then to get the Board higher, new Board members need to also understand…
        • The Strategic Questions and Issues that the Board is exploring – the background to these questions/issues, the current work being explored and the upcoming dialogue to be undertaken.

        In addition to good Orientation, Boards can also have a Strategic Planning Committee – a small group that works with the CEO as a strategic thinking group, to explore various elements, then organize them and develop the background support in order to bring the important questions to the whole Board for their consideration and discussion.

D -   As you know Lyn, I am a big fan of drawing pictures. I have found that Board members typically cannot easily draw a picture of how their organization:
        • Fits into the wider industry
        • Connects with government and/or
        • Interfaces with clients/community   In addition, Board members should be able to picture:
        • The key client/customer dynamics that are shaping their environment – such as demographic shifts or new trends/expectations

- The key innovation dynamics – where their staff, suppliers and partners might be inventing new services, programs, products; and/or where technology may be driving new opportunities

With a picture in front of them of how the "world connects to them and how the organization works" Boards suddenly find or make time for these kinds of meaningful discussions.

Another challenge to lifting up Board discussions is in the utilization of technology. How many Boards out there do a majority of their meetings by teleconference? Many! So, how do you have a meaningful teleconference dialogue with 15 people? Does silence mean agreement? Or - that you have fallen asleep or that you are doing your emails while on the call?

Using Pictures and better use of technology are both necessary for improved Governance dialogue.

L -   Perhaps we are cramming too much into a form or structure of time and space which is simply inappropriate! Meetings, pre-readings and committee discussions are the normal tools of Governance today. But can we better utilize:
- e-discussions to finish off (or start) something we do in person or over the phone?
- "Discussion Boards" on intra-net sites – remembering that everyone needs to contribute!
- Participative elements which ensure all Board members participate

There seems to be real constraints of time & space for people to pay attention, show-up, and participate. I wonder if we are at the start of some new Governance methods and tools being developed – that would be exciting, wouldn't it?

D -   There are some very useful providers of Web-casting and On-line discussion sites where PowerPoints, or drawings can be put up while dialogue is happening. Some of the business schools and other organizations have installed video-conferencing and/or provided computers with web-cams to Board members so as to involve them through such technologies. The equipment and technology is in place these days to actively engage people in widely distributed locations to effectively meet and dialogue.

L -   Before I forget, as it is certainly something I am integrating into my practice with clients; another tool making its way into the Boardroom is the organizational Scorecard or strategic "Dashboard". This can focus the discussion by Management and the Board on the top-priority issues. They can be made into documents that are:
- Colour-coded
- Based upon Outcomes Measures
- Identify Potential Strategies & Timelines
- Highlight Risks

Of course, there is the good up-front work required by Management and the Board to identify Critical Success Factors/Goals, create solid, future-oriented and impact-focused Outcomes Measures. But then this work also helps the Board achieve Accountability, Transparency and Risk Management.

D -   That's a nice segue into the last question we will address in this article…

How Can Boards deliver improved Accountability and Transparency Expected by Stakeholders?

D -   Well it does all begin with the strategic exploration, and then the clear creation of Outcomes Measures of Success. Without future-focused measures of impact/success, then it is hard to report on progress. Outcomes measures forces everyone in the organization… Board – Management – Middle Management – Front-line Worker and also Suppliers … to really focus on whether or not they are making a difference (vs. just doing stuff!)

L -   It does mean some hard work to crystallize the strategic direction of an organization into a few CSF's/Goals (usually in a Balanced Scorecard style); then figuring out how to measure success of say Clients/Customers, Financial, etc. Once done however, these can be used by the Board to ensure Management is on track, and Management can spill this down throughout the whole organization. This is where the Sarbanes-Oxley act for example, has now really been seen to have been underestimated initially. All stakeholders are expecting the Board to ensure that Management uses its resources to truly advance the organization and make a difference.

        Management does have to now report with more accuracy too.
        This requires establishment of milestones and measures that can be reviewed on a Quarterly/Annual basis. This goes back to the Scorecard or Dashboard. Detailed thinking and "so what" discussions then also need to accompany reporting: Do we nee to re-think our approach/? Are our targets to modest or too ambitious?

D -   Yes, this Scorecard/dashboard approach is becoming a critical component in the Oversight role of Boards today. AND, as you said, this requires some thorough thinking up-front by both Management and the Board.
        The selection and wording of Critical Success Factors/Goals by Management, agreed upon by the Board, and in conjunction with the Strategic Directions/Vision of the organization means the Board is now a part of the success or failure, and can not simply divest themselves of responsibility and blame Management for failure!
        Clear Outcome/Impact measures allow Board members to have meaningful discussions in the community and with other influencers about the work of the organization and impressions of community.
        Strategies and Action Items that are time-lined and specific, ensure a commitment by Management and staff throughout to actually deliver on their goals!

L -   Yes! And, activity alone can no longer substitute for success (of impact or advancement).
        This is a BIG difference between say 15 years ago and today.

D -   This also allows the Board to make a public commitment to its stakeholders about:
        - Direction
        - CSF's/Goals
        - Outcomes Measures that will make a difference.
        Far from giving away all its intentions to competitors, this kind of Transparency can further engage community members, clients/customer and staff in a way never before seen. It invites a "partnership for success" mentality and invited ideas and innovation to come to the organization from many sources. This does not have to threaten success or crimp one's competitive advantage!

L -   That's powerful stuff Doug. In this environment, hearing Activity Reports or Exception Reports, is simply not all that compelling when compared to a Scorecard report against Outcomes Measures, and focusing on whether or not the organization in the last quarter has:
        - Actually made a difference in the community or for their clients/customers
        - Created the impact we aspired towards
        - Advanced the organization towards the positioning and Vision it has established

We hope you have enjoyed in sharing in our dialogue. We invite you to send us any other questions you might have that your Board is particularly addressing this coming Year. In the meantime, below are some other references and resources we hope that you will find valuable!

Exploring the Web!

This month, the connections below take you to sites with more perspectives, commentary and discussions of Board Governance challenges and related elements.

Corporate Board Governance Series on Key Issues (2007) from PriceWaterhouseCoopers
http://www.pwc.com/extweb/pwcpublications.nsf/docid/1F326DA6D21577AC852570BE0050A4A5/$FILE/ix_board_governance_series.pdf
and
http://www.pwc.com/extweb/pwcpublications.nsf/docid/1F326DA6D21577AC852570BE0050A4A5/$FILE/x_board_governance_series.pdf

NonProfit Governance in the United States – Findings on Performance & Accountability from First national Representative Study http://www.urban.org/UploadedPDF/411479_Nonprofit_Governance.pdf

First National Study of Non-Profit Board Governance Practices in Canada.
[Click through to Strategic Leverage Partners and register for free download.]
http://www.cvsrd.org/eng/docs/Policy%20and%20Practice/National%20Study%20of%20Board%20Governance.pdf

Spencer-Stuart Board Index 2009
[Again, click through & register for free access to report, webcasts and more.]
http://content.spencerstuart.com/sswebsite/pdf/lib/SSBI2009.pdf

Resources to nonprofit leaders through workshops, training, and an extensive Web-based database.
www.boardsource.org

The Institute On Governance (IOG) is a non-profit organization with charitable status founded in 1990 to promote effective governance. http://www.iog.ca/

This site, hosted by Policy Governance creator John Carver and Miriam Carver, is *the* authoritative website with respect to the principles and concepts of the model. http://www.carvergovernance.com/

The National Association of Corporate Directors is the USA not-for-profit membership organization dedicated to serving the corporate governance needs of Directors and Boards.
http://www.nacdonline.org/

Quotable Quotes:

Drucker on Management:

> *Management is what tradition used to call a liberal art – "liberal" because it deals with the fundamentals of knowledge, self-knowledge, wisdom and leadership; "art" because it deals with practice and application. Managers draw upon all the knowledge and insights of the humanities and social sciences – on psychology and philosophy, on economics and history, on the physical sciences and ethics. But they have to focus this knowledge on effectiveness and results – on healing a sick patient, teaching a student, building a bridge, designing and selling a "user-friendly" software program.*
>
> *What is YOUR plan to develop yourself in the humanities and social sciences?*

Peter F. Drucker, 1989; from *The Daily Drucker*

On Governance:

> *[Because power corrupts] Society's demands for moral authority and*
> *character increase as the importance of the position increases.*
> John Adams, American Founding Father and second U.S. President (1735-1826)

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