LEADERSHIP ACUMEN Feature Article KM Magazine

Knowledge Management & Governance

Knowledge Management for high-performing Boards is as much about managing what they don't know, as it is managing and sharing what individual Board members and Management executives do know!

In fact, Boards owe it to themselves, the communities they serve, and broader society to relentlessly pursue knowledge and build a better understanding of their business, related industry sectors, the economy and society at large so as to make the strategic decisions that will ensure their organizations remain relevant and sustainable into the future – and ensure sustainability of the surrounding community as well.

Today, meeting that challenge is no easy task. The various stakeholders of our corporations, not-for-profits, and governments expect more than narrow minded pursuit of profitability, service delivery or enhanced public policy. They expect governors to take a more globally-networked perspective, be transparent and ethical in their decision-making, and act in a fully knowledgeable manner about the risks and value-creating, innovation potential for the organization. The operating environment has become more complex and fast-paced than ever before, making part-time service in governance a more time-consuming endeavour.

Good Intentions May Not be Good Enough

Let's start with an important assumption. The vast majority of Boards – be they corporate, not-for-profit, or governing councils/cabinets – are populated by well-meaning individuals trying to serve the best interests of many stakeholders – simultaneously. Many are highly competent and seasoned leaders and Directors that prepare well for meetings, represent the organization publicly and serve on various committees.

The recent rash of media coverage of questionable Board / executive conduct not withstanding, the malfeasance and poor risk management or sustainability judgement is not an epidemic. At least not yet. And, while some of this behaviour exposed in the media was clearly pre-meditated, much of today's governance practice is fundamentally well-intentioned.

The question is whether good intentioned governance practices are good enough. I am personally concerned that the *Real* Work of Governance – whether paid or voluntary – must go beyond good intentions. It is high value, highly demanding intellectual and in practical application work, and it takes dedication and focus to do it well.

Indeed the creation of the Sarbanes-Oxley Act in the USA; the revised standards for corporate disclosure and governance practice by the various securities commissions in Canada, plus the new Bill C-4 affecting NFP/Charity governance in Canada; and other recommendations around the world including the Cadbury Commission/London Stock Exchange, the OECD, the German Panel on Corporate Governance, the Honk Kong Code of best practices, and more; say good intentions is not enough! Instead they demand new practices and significantly enhanced engagement by the Board in oversight, risk management, community/stakeholder/ government relations, and fully understanding the complex networks surrounding the organization.

Meanwhile, community members are holding Boards accountable for their actions or lack thereof.
Public expectations now significantly exceed legal minimum requirements. Thus "not breaking any laws" is actually not an acceptable response.

Independence from Management
One key theme in all these new recommendations is that Boards are now expected to be “independent” of Management. This has different meaning in different contexts.

In corporate governance, Boards are expected to be independent of Management in representing the shareholders’ interests and broader social interests. They are expected to provide oversight of Management as in the past, but now to also go beyond Management reports – to probe and satisfy themselves that Management information is accurate and truthful, plus that management processes and reporting systems are providing the appropriate information upon which the Board, investors and the public can rely.

Beyond legal or jurisdictional rules, society expects Boards to hold Management accountable for their actions and ethics; and they expect the Board to hold themselves accountable to shareholders, government and community – transparently so – for the actions and ethics of their corporations.

Independence is also interpreted more and more as being “objective”; and objectivity is being interpreted more and more to mean going beyond the narrow self-interest of the Corporation and its shareholders to include fair treatment for all stakeholders.

This places significant new demands for knowledge and values management in the corporate Board room and beyond.

In the NFP context, “independence” means today, that Boards must know more about the ‘business’ than just what Management tells them. To be fair, it is not that the CEO/Executive Director is a bad person! Most are in fact extremely competent. It is just that past practice has had Boards very dependent on the CEO’s knowledge, insight, and judgement. Often in NFP’s the CEO has been the person shaping Board agendas, facilitating the Board meetings, sending out the minutes, doing the Board orientation and training, and ‘doing the work’ associated with Board committees.

Independence of NFP Boards means this has to stop! Boards need to take charge of their own processes and systems. The CEO has to more clearly work for the Board, rather than the other way around.

Board “work” such as fundraising or ethics, while valuable and important to the organization should now be considered as “added value” to the <u>core work</u> of strategic insight and sustainability focus, community engagement, risk management, management/process oversight, and stakeholder/ funder/ government relations. This may come as a shock to volunteer Board members used to contributing 1 – 2 days a quarter to come to Board meetings. This will require a new level of knowledge, general awareness, public/government interface, studying, preparation and more. The real work of governance clearly occurs more outside the quarterly/monthly Board meetings, and through committee or work-group initiatives.

Talk about a KM challenge! How will we get NFP Board members up-to-speed quickly to do this work? How do the find resources (other than the CEO/Executive Director) to support them? How will they make the time to make good in their government imperatives vs. simply living out good intentions?

Independence for Government Councils/Cabinets means an ability to separate politics from prudent governance. (This is frankly a head-spinning challenge, as the capacity for politicians to really ‘get’ this last sentence has proven to be incredibly difficult.)

While our politicians are elected based upon party policy or individual platforms, once in power, they are *required* to balance this off against what is “right” for the good of the whole.

This means huge levels of knowledge building, sifting, prioritizing, etc. Again however, our political leaders are expected to rise above that which the civil servants brief them, and/or petty party allegiances. They will need to get out and see for themselves the impact of their policy/programmatic directives. They will be forced to choose between multiple "correct" courses of action as recommended by different and often conflicting interest groups.

In order to do this, government leaders will need to educate the public about key issues and decision frames, and then engage community dialogue prior to facilitating multi-perspective, multi-dependency decision-making.

I'm not sure the citizenry, media, or leaders fully understand the shift required by our evolving expectations of public governance. The 2009-2010 international economic collapse and associated debacle of outrageous Government debt burdens – especially in Europe is straining government governance sensibilities to the limit! It has become all to clear that Government leaders have been making "populist" decisions completely devoid of the sustainable governance responsibilities. Even the bank bailouts and 2009 economic stimulus spending seems in 20-20 hindsight to have been generally poorly conceived and even more poorly executed and monitored. We all have significant improved KM roles to play. Here Knowledge Management needs to address not just the governors, but the citizens and media too. Talk about the ultimate KM challenge!

Key Insights from Contributors to the Discussion

A hearty on-line AOK forum dialogue in May 2005 raised and addressed several of these elements. Some of the "gems" from our discussion related to the above challenges included:

Kurt Rieger (Germany) suggested that:
"Continuous self-assessment and corrective action by Boards is important to both the elimination of internal frictions and prevention of external unforeseen consequences of their decision-making.

Chris Macrea (U.K.) suggested a 2X2 knowledge leadership approach for Boards:

1. Trust Attitude/Knowledge
   Building Trust throughout the Board's network, multiplying the value of those networks over time.
2. Intangibles Attitude/Knowledge
   Integrating the whole vision plus values to connect relationship flow and provide systemic exchange of purpose - all positively compounding the future dynamics.

He also ventures the question: "Does a Board's knowledge position advance trust and intangibles simultaneously?

Kurt Reiger again built upon Chris' suggestion to say the Board's KM Strategy should simultaneously address a 3X3 approach: Truth, Trust, and Transparency.
From here Kurt asked what I felt was a huge contribution to the Board KM process…

"What is it that I don't know, that is salient to doing my governance duty?"

Jack Ring (U.S.A.) suggested expanding upon Kurt's question, with respect to the External Auditor – that the Board needs to go beyond the financial focus to address the sufficiency of the information it receives regarding all operational aspects and risk areas.

He also suggested that Boards, along with Management, better understand enterprises as systems (working within Networks) and thus consider both the conditions for sustainability of the enterprise, plus the unintended potential consequences. (The latter being done through scenario modelling and/or simulation.)

Kurt Rieger absolutely riveted my attention with respect to Boards' practices of "Delegation in Ignorance" of high risk, high liability decision-making. Often Boards delegate complex or high-risk elements to the CEO and Management Team because they don't understand it. Equally prominent however, is how the Board might delegate responsibility for such high-risk aspects as safety, systems liability, operational integrity, and more to contractors – assuming Liability and Responsibility for managing the risk will flow to the contractor.
Ask British Petroleum about that assumption w.r.t. the 2010 Gulf of Mexico oil platform/well disaster!

In the process, this makes such risks almost impossible to audit, and thus important risk aspects never reach the Boardroom for consideration and contingency planning. Supply chain and cost-reduction efforts, contract-bidding mechanisms, and outsourcing can all push responsibility for risk management out to contractors and others who don't have the full context for their decision-making! Boards may do this due to complexity, or with the false assumption they are also passing on accountability & liability through these contracts.

In reality, the Board never shifts accountability OR liability for such risk management, decision-making, ethical practice, client/staff safety and more when they delegate it to Management or contractors (professional or otherwise.)

Thank you Kurt – this was a profound governance KM point from my perspective!

Mark Neff also made one of my favourite contributions to our conversation – generating some of the points that Chris & Kurt mentioned above…

"KM for Boards is more than the management of known knowledge. It is also embodies the process of developing and then applying new knowledge – assessing the existing knowledge within the Board, then helping them attain the knowledge they need to do their jobs well."

The proverbial Knowledge Paradox applies well to Boards – "the more you know, the more you know what you don't know!"

He asks how will the Board experiment and network outside the trusted fold to learn of other opportunities, explore different perspectives from assumed wisdom, and probe that which might completely upend the organization's current direction/thinking for a new and even more "profitable" strategy.

Ivan Fergus (U.S.A.) – a nuclear engineer and artificial intelligence expert pondered why it is that if Board members are supposedly so smart and valuable to an organization, that they don't do better at e-dialogue, employ a trusted e-secretary to support them in computer/web literacy, and facilitate better/proper fulfillment of their duties in 21st Century terms!

Pallov Mishra (Israel) asked how investors/Board members who might have ownership stakes in multiple competing organizations avoid conflict of interest and maintain their fiduciary duty. This extends further to those who represent constituency interests at the Board table. Pallov raised the stakes further around the e-ethics governing electronic information transfer amongst Board members and its subsequent dissemination into outside networks. All good questions Boards should ask themselves and have guidelines in place or even codes of conduct.

By the way, I learned during this dialogue that the Catholic Church Bishops of the USA are developing a code of conduct! Jay Leno of the "Tonight Show" appropriately suggested they already had one – the 10 Commandments!

Sometimes good governance is just plain common sense!
Unfortunately, good sense isn't so common any more it seems.

"Does any Board member truly understand the basis of 'Goodwill'?" Chris Macrea asks. Think more deeply on this question – it is a good one! How might your Board enhance its Goodwill?

Debra Amidon (U.S.A.) pointed to the different interpretations of governance, transparency, accountability and trust, depending upon different cultures – around the world; corporate/NFP/government; and indigenous vs. dominant races.

As well, she highlighted the need for all of us dealing with KM and Boards to find the excellent examples to follow rather than just pointing to the errors.

Such exemplary governance leaders might include Ray Anderson of Interface, Sir John Banham of Britain (Chair of several Boards), and Mads Ovlisen, Chair of Novo Nordisk (Denmark).

Board Members Are Realizing They Need to Know More!
Finally, as I profiled in the discussion at one point, McKinsey's 2005 research into governance practices points the way for many Board KM efforts to address…

- 70% of Directors want to know more about customers, competitors, suppliers, likes/dislikes of clients/consumers, market share, brand strength, etc.
- 50%+ want to know more about the state of their organization including: skills and capabilities to realize the corporate strategy.
- 40% seek more insight from external networks – such as government/regulatory about risks; and public, media, and community attitudes towards the organization.
- Only 11% of Directors claim to have a complete understanding of the current organizational strategy, while
- Only 4% fully understand the long-term position of the organization!
- Incredibly, only 8% of Directors feel that Management fully understands the key initiatives required to achieve the strategies for the future.

With statistics such as these, one really has to wonder what our Boards discuss when they meet today, and what the Boards are paying senior management to do!

When it comes to high performance Governance in our world today, KM practitioners have much to contribute!
