



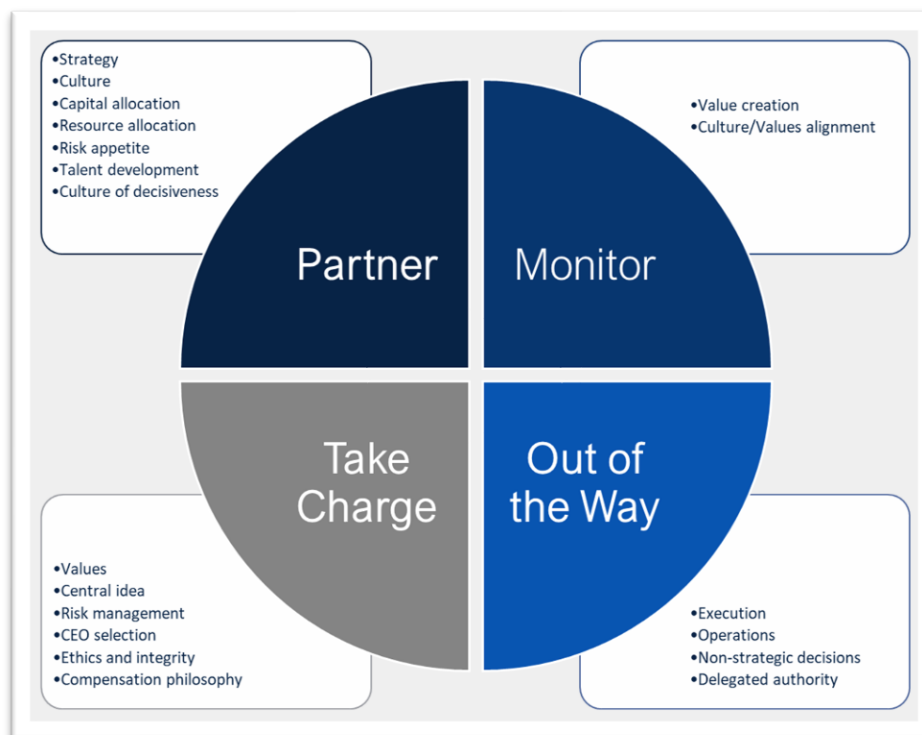
Lesson 3 - Building an Effective Board

An effective board of directors executes its duties and responsibilities with a modern, flexible approach that adapts to what the organization needs in a particular situation.

Boards that Lead

A useful way of thinking about the board's approach is articulated in the book [Boards that Lead](#) by Ram Charan, Dennis Carey and Michael Useem © Harvard Business Review 2014.

The authors see a model of effective governance in which boards take charge, partner with management, monitor, or stay out the way, depending on the area being considered and the situation they are faced with, as shown in the graphic below adapted from the book.



A crisis may very well require a board of directors to adapt its approach – for instance, shifting from staying *Out of the Way* to *Partnering* or even *Taking Charge*. Knowing when and how to make that shift – and then shifting back when the time is right – requires a board made up of strong individual directors who can work together effectively.

Board Dynamics

Clear documentation, sound structure, and robust processes are all necessary components of an effective board of directors. Necessary, but not sufficient.

The secret sauce is the people – the individual board directors.

A successful board is more than just the sum of its parts. A truly effective board benefits from the way the individuals interact. How they learn from each other and build off each other's ideas. How they challenge one another, leading to good decisions for the benefit of the organization and its stakeholders.

If you were starting an effective board from scratch, you'd need to begin with an understanding of board dynamics.

Board dynamics refers to the way that individual board directors interact with each other. You can see a board's dynamics through the language that directors use, how they constructively challenge and debate each other, and the way they make decisions.

Every board takes on the collective personality of its members. This plays out in the behaviors, routines, and social norms that the board develops. It contributes to the expectations – whether stated or unstated – that every board member tries to understand and live up to in order to fit in. Consciously or unconsciously, it affects how directors think and act, what they are willing to say, and how they say it.

A board of directors is a group of human beings, not just a collection of rules and protocols. Most importantly, the process of governing an organization does not occur in a social vacuum.

There is a great deal of research demonstrating that the quality of board members' interaction is crucial to board effectiveness – that positive board dynamics can make the difference between an effective board and a dysfunctional one.

Positive board dynamics contribute to director engagement, meaningful discussion, good decisions, and positive outcomes. All of which translates to a higher level of satisfaction for directors.

A board with positive dynamics looks more like a high-performing team than a collection of random individuals. It is characterized by :

- Trust, openness and collegiality.
- Directors who view each other as valued colleagues (not necessarily as friends).
- A willingness to speak up and engage in constructive conflict.
- Respectful interactions between board and management.
- Rich and challenging discussions.
- Lack of rivalries and disputes.
- Equal participation among board members.

Character, Competence, Chemistry

The individuals who come together to create an effective board bring a lot to the table. A quick way of sorting out the desired characteristics is *The Three C's* – character, competence and chemistry. (This model, originally developed by pastor and author Bill Hybels for use in church-related recruitment, is now widely used outside that field.)

- **Character.** In Module 1, we discussed the importance of *Tone at the Top*. Establishing the right tone at the top requires board directors with impeccable character. Lapses in character can create problems with far reaching implications. A breakdown in character breeds distrust and alienates other board members. Worse yet, it can harm the board's credibility and damage the organization's reputation. Directors with strong character have a reliable moral compass. They can be counted to govern with integrity, make ethical decisions, and hold themselves to a high standard of behavior.
- **Competence.** The job of a board director consists of considering, analyzing, evaluating, and deciding. To perform the role well, each board member needs to have a great deal of practical knowledge and skills, critical thinking abilities, emotional intelligence, and never-ending curiosity. These competencies are generally developed through some combination of formal education and informal learning; work, community and individual pursuits; and lived experience. Competent directors usually have a proven track record in their field.
- **Chemistry.** The concept of chemistry relates to 'fit' – the match between the individual's preferences on one hand and the board's realities on the other hand. A good fit is important for both the director and the board. A negative director can corrode the chemistry of a board, and a director who's not committed to group norms can lower the enjoyment of all the other board members. Chemistry isn't about people liking one another or being friends, it's about being committed to the same values and the same goals. It's not about everybody thinking the same way, it's about mutual respect and the willingness to listen and learn from each other.

Using a Competency Matrix

While character and chemistry may be non-negotiables, it's not necessary for each and every board member to possess the entire set of knowledge and skills that the full board needs. As a rule of thumb, having three directors with a required skill or knowledge set gives the board what it needs.

It helps to visualize the skills and competencies that the collective board possesses. A competency matrix, or skills matrix, is a useful tool used by many boards to map out the competencies that each director brings to the board. The matrix, once carefully completed, reveals the full picture – where the board is strong and, conversely, where competency gaps need to be addressed.

Refer to the Appendix for an example of a Board Competency Matrix.

Board Diversity

The most successful boards are composed of directors who bring diverse perspectives to their discussions and decisions. Here are some of the benefits of board diversity:

- Having multiple views on the possible outcomes of any action makes for more robust decision-making.
- Diversity allows for the board to better anticipate and consider the concerns and perspectives of all key constituencies.
- A board needs to draw upon a range of experiences in understanding opportunities, anticipating challenges, and assessing risks.
- A board needs to constantly challenge itself to keep pace with the changing dynamics an organization faces. This is best done through a robust dialogue of differing views.
- A range of perspectives leads to collaborative tension that is the essence of good governance, allowing the board to ask probing questions and tackle challenging issues.

When building an effective board, there is no better guarantee of diversity of thought than including individuals with different perspectives. An individual's perspective is influenced by three sets of attributes that shape how they approach situations and how they respond to others.

1. Experiential attributes such as functional experience, industry experience, accomplishments, and education.
2. Demographic attributes such as gender, race, region, and generation.
3. Personal attributes such as personality, interests, and values.

Director Recruitment

Finding potential new directors and assessing their fit is a key governance activity. Boards differ markedly in their approach to identifying, screening, and interviewing director candidates. Some leave the whole process to a committee (usually the governance committee or a separate nominating committee), or maybe one or two directors, or even just the board chair. Some boards even leave it to the CEO or Executive Director. (Leaving director recruitment in the hands of management is not recommended. Doing so is an abdication of the board's responsibility.)

In terms of process, some boards use a multi-step approach that might start with a casual lunch with one or two directors, followed by an interview with a committee, and culminating with an interview with the full board. Or they may start the process with a search firm that performs the screening and conducts a preliminary interview before the candidate talks to any board members.

Large publicly-traded boards are most apt to make use of a specialized search firm. Smaller organizations and those in other sectors tend to use a combination of networking and advertising. There's a natural tendency for directors to turn to their own networks to identify candidates for their board. The problem is this can easily give rise to self-reinforcing homogeneity. Directors are simply not aware of how limited their own networks are when compared with the universe of qualified candidates.

To optimize diversity of thought and ensure they find candidates with the required character, competence, and chemistry, directors need to cast a wider net. That means going out of their way to find candidates, using creative approaches and a variety of recruitment tactics, and considering persons with backgrounds that are outside their pre-conceived notions.

Once good candidates have been identified, the process proceeds to the interview stage. A board interview is not that different from a regular job interview. Both the board and the candidates have interview goals they want to achieve.

- The board wants to get to know the candidates; to gather information about their career, expertise, and board experience; to understand their motivation and learn about their personal style; and to ensure they understand what's expected and are prepared to commit the required time and energy.
- The candidates want to get clarity on expectations; to understand the organization's maturity level and the board's governance model; to uncover the organization's financial health and future plans; to ensure protection from liability; to share any potential conflicts of interest; to understand the board's culture; and to discover if the role is aligned with their personal goals.

If the interview process suggests there would be a good fit between the board and the candidate, there are usually reference checks, record checks, and required documentation before the candidate is nominated and their name is put forward for election or appointment at the next annual meeting.

Module 2 – Engage in the Work of the Board

Appendix – Sample Board Competency Matrix

This sample is adapted from [Effective Governance](#), which quotes the source as: Kiel, G., Nicholson, G., Tunny, J.A., & Beck, J., *Directors at Work: A Practical Guide for Boards*, Thomson Reuters, Sydney, 2012.

Industry knowledge / experience	Director A	Director B	Director C	Director D	Director E	Director F	Director G	Director H
Industry experience								
Knowledge of sector								
Knowledge of public policy								
Understanding of legislation								
Technical skills / experience	Director A	Director B	Director C	Director D	Director E	Director F	Director G	Director H
Accounting								
Finance								
Law								
Marketing								
Information technology								
Public relations								
Risk management								
Human resources								
Senior management experience								
Strategy development								
Strategy implementation								
Governance competencies	Director A	Director B	Director C	Director D	Director E	Director F	Director G	Director H
Board experience								
Financial literacy								
Strategic thinking								
Performance management								
Risk oversight								
Compliance oversight								
Profile / reputation								
Behavioral competencies	Director A	Director B	Director C	Director D	Director E	Director F	Director G	Director H
Team player / collaborative								
Willing to challenge and probe								
Sound judgment / Common sense								
Integrity / High ethical standards								
Mentoring ability								
Interpersonal relations								
Listening skills								
Verbal communication skills								
Decision-making ability								
Willing to devote time and energy								