Board Governance: A Social Systems Perspective
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Board governance: A social systems perspective

Wayne F. Cascio

There is no shortage of advice these days about what constitutes good board-governance practices. Conversely, there is ample evidence about what does not. Complacent boards of directors, blatant conflicts of interest between board members and the companies they serve, cronyism among board members and the CEO, boards packed with insiders who are afraid to challenge the status quo—the list goes on and on. Much of what we have learned in recent years about poor governance practices comes from the activities of senior executives and board members at Tyco, Enron, WorldCom, Rite Aid, Adelphia Communications, and other corporate miscreants.

In the wake of bad publicity and financial devastation to investors, observers rightfully ask, "Where was the board in all of this?" Congress, business advisory groups, special commissions, and regulatory agencies have responded by cooking up a rich gumbo of mostly structural approaches to good governance.[1] These include, among others, the need to have independent outside directors, an appropriate committee structure (e.g., audit, nominating, compensation), CEO certification of quarterly financial results, and financial expertise among outside directors who serve on a firm's audit committee.

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On the surface these steps seem prudent and sensible, but they are far from sufficient. In fact Jeffrey Sonnenfeld's research has shown clearly that structural changes in and of themselves do not distinguish effective from ineffective boards.[2] What does distinguish the best from the rest is a well-functioning social system in which members trust and challenge one another and engage di-

rectly with senior managers on critical issues facing the corporation.

At its core, a board of directors is a workgroup, that is, an intact social system, complete with boundaries, interdependence among members, and defined roles. A wealth of social science research has sought to identify characteristics distinguishing groups that work from those that don't, and there is much to learn from this body of knowledge.[3] Applied psychological research also has identified effective selection and feedback processes. At the same time, there remains much that we do not know in each of these areas. As an organizing framework, therefore, the following sections will examine what we know and what we would like to know about three areas related to board functioning: boards as workgroups, the selection of board members, and assessment and feedback regarding board performance.

Some Things We Know About Workgroups

One well-established finding is that a workgroup leader's behavior has important effects on group performance.[4] In the context of a board of directors, several individuals may play important leadership roles, such as the board chair, the lead director (if there is one), and the CEO. Effective leaders of workgroups tend to exhibit the following behaviors, among others: they choose members carefully and give each member a good reason for being in the workgroup; they frame the group's decision tasks appropriately, emphasizing clear, well-defined goals and the consequences of the group's decision; and they encourage the development of productive team norms. Such norms include, for example, expectations about attendance at meetings, advance preparation for meetings, values and corporate culture, and ethical standards. In the context of effective boards, leaders are "culture carriers," for they model and live the values that shape the behaviors of board members.

Beyond serving as role models, leaders of effec-

tive workgroups monitor the performance of their team members regularly, and they provide frequent feedback to them.[5] In fact, as much as 35 per cent of the variability in workgroup performance can be explained by the frequency of use of monitors and consequences. Behaviors such as these are more important than the visible characteristics of the leader.

Some Things We Would Like to Learn About Workgroups

Monitors and consequences are by no means the sole indicators of workgroup effectiveness. Effective communication among members, often in the form of closed-loop feedback, in which both sender and receiver verify that the intended message was received, is especially important in emergencies and other situations when accurate communication is essential. Effective teams, or boards, also show the ability to alter their behavior as different situations dictate, but this is characteristic of mature teams with lots of experience, practice, and training. One thing we do not know is how to accelerate this learning and to generalize it across workgroups. Lastly, we know that teams and workgroups change and develop over time.[6] We do not know how to recognize important "inflection points" that signal such changes, nor are we able to anticipate emerging challenges that will confront the workgroup over time.

Obviously not all of the issues associated with effective workgroups can be addressed in the space of this article. Rather, I would like to address just two of them: careful selection of board members, and effective feedback processes.

Some Things We Know About Selecting Board Members

The well-developed body of research findings in the area of personnel selection applies just as well to the selection of board members.[7] Prior to selecting anyone, it is important to identify the duties and responsibilities of all board members (e.g., protecting the interests of shareholders; monitoring management's performance; appointing, evaluating, and, if necessary, replacing the CEO; following legal requirements). With respect to the selection of new board members, it is important to identify the knowledge, skills, abilities, and other competencies required for the position. Here is one strategy for doing so.

Develop a matrix of key areas of expertise needed currently as well as in the future in order for the board to function effectively. Arrayed on the vertical axis, these might include areas such as multi-func-

tional managerial experience, marketing, finance, law, information technology, human resources, government relations, business development, and e-commerce. Across the horizontal axis, list the names of current board members. Insert a check mark in each cell in which an existing board member provides a desired competency. Empty cells suggest needed competencies as well as the kinds of characteristics to look for in prospective recruits.

Another well-established principle in personnel selection is that past behavior is one of the best predictors of future behavior in similar situations. Résumés, reference checks, and structured, behavior-based interviews that include questions requiring a candidate to "tell me about a time when . . ." all focus on past behavior. To the extent that there is point-to-point correspondence between a candidate's prior experience and demonstrated board needs, past behavior may well predict future behavior. We know that thorough reference checking is essential, however, since résumé fraud, even at executive levels, is not uncommon. Experts estimate that 33 per cent of all executive résumés contain inconsistencies ranging from bogus college degrees to invented positions.[8] Kenneth Lochar, former CFO of Veritas Software, was fired in October 2002 when board members discovered that he had never graduated from Stanford University's business school, as he had claimed. For more than 15 years, nobody in Silicon Valley bothered to make a local call to inquire. Chairman and CEO Ronald Zarrella of Bausch & Lomb Inc. had to forfeit a bonus of $1.1 million when his false claim of an MBA degree from New York University was discovered. Apparently the headhunter that recommended Zarrella to his previous employer, General Motors Corp., hadn't checked up on him either.[9]

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Interviews with prospective directors are virtually universal features of board-selection processes. Experience-based interview questions can be developed by asking board members to identify critical incidents, that is, vignettes of particularly effective or ineffective actions that board members took in response to boardroom situations (e.g., questionable accounting, conflict among board members), and then turning the critical incidents

into interview questions. Board members can help to identify scaled responses from outstanding to unacceptable. To address potentially troublesome scenarios, such as an ethics violation, candidates can be asked to describe "what would you do if . . .?" This is a situational-interview question that focuses on future behavior. Evidence indicates that both experience-based and situational interview questions both predict future performance accurately (predictive validities of .51 and .39, respectively) and that the experience-based interview is equally predictive for minority and non-minority candidates.[10]

Some Things We Would Like to Learn About Selecting Board Members

Selection of new board members is perhaps the greatest unknown. While carefully developed selection instruments can predict performance to an extent, their validity is not perfect.[11] Will the new board member embrace the culture and norms of the existing board? Will he or she fit in, while at the same time demonstrating the willingness to engage in healthy debate and to challenge the status quo? While technical expertise is a necessary prerequisite for consideration as a board member, so also are interpersonal skills, integrity, and independence. Both "can-do" and "will-do" factors deserve equal emphasis in the selection process, but the latter are much more difficult to assess accurately.

Some Things We Know About Board Performance Assessment and Feedback

Psychologists are fond of saying that there is no learning without feedback. After all, why do so many people opt for private lessons in sports or education? They do so because they want specific information, that is, feedback, about their performance. Such feedback facilitates improved performance.[12] With respect to performance assessment, it can and should be done at two levels—at the level of the board as a whole and also at the level of the individual. At the board level, the purpose is to assess the effectiveness with which it is carrying out its governance responsibilities and also to improve the processes by which the board operates. Relevant processes include the quality of discussions at board meetings, the credibility of reports, the use of constructive conflict, and the level of directors' knowledge about the business and the strategic challenges it faces.

When people work together every day, as in ongoing operations, there is general agreement that performance feedback should be a routine feature

of a sound performance-management system.[13] Given the relatively infrequent meetings of the full board, however, it makes more sense to assess the performance of the board on an annual basis. Such assessment is essential if the board is to improve its ability to function as an effective social system over time.

At the level of the individual, my experience is that peer evaluations can be difficult, since fellow board members are often hesitant to criticize each other's performance. On the other hand, when self-evaluations are combined with feedback from the board chair or lead director in a one-on-one meeting, that information can be powerfully effective in maintaining or changing behavior. Here is an example of how that works for one board.

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Each year the board holds a two-day off-site meeting to review the company's business plan and its strategic direction. Directors interact extensively among themselves and also with senior managers in lively, engaging meetings. Subsequently staffers develop a verbatim transcript of the entire set of meetings at the off-site session, and the board chair analyzes it in order to provide each director with specific, concrete examples of both effective and ineffective aspects of his or her behavior. The chair meets separately with each director over lunch, at which time the chair shares his or her performance information from the off-site meeting, as well as additional information based on observations of the director throughout the year.

Perhaps the major advantage of such feedback is that when combined with each director's self-evaluation, it provides concrete examples that the director can use to improve his or her performance in the future.

Some Things We Would Like to Learn About Board Performance Assessment and Feedback

Long-term behavior change is not easy, and that is the goal of performance assessment and feedback. The mechanics of effective feedback processes are much easier to convey than is the art of giving feedback. Even if the assessment is accurate and feedback is delivered with sensitivity and skill, the board member may choose to ignore it. Over time there may be consequences, but since boards meet relatively infrequently, the consequences may be

far off. With respect to self-appraisals, research indicates that they tend to be more lenient, less variable, more biased, and to show less agreement with the judgments of others.[14] This is one more reason why board members may reject feedback and attempts to enhance their professional development.

Becoming an effective director takes hard work and dedication, but the process is no different from becoming a contributing member of a workgroup. Boards, like workgroups, are intact social systems that require regular monitoring and feedback in order to work well. Board-member selection and performance assessment are critical components of the overall process.

Endnotes

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[6] McIntyre & Salas.

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