The Non-Executive Director
non-execs.com
A service from The Financial Times Ltd.

Maximising board performance

The release of Sir David Walker's Report has brought the role of non-executives into the spotlight. The Report has called for directors in Banks and Other Financial Institutions (BOFI) to have 'greater skills, more experience and demonstrable independence'. In addition, Sir David believes that non-executives should reduce the number of appointments they take on and spend more time getting to know the businesses they work with.

While Sir David's recommendations have been welcomed across all sectors there seems to be little agreement on future best practice.

One group, the Institute of Chartered Accountants in England and Wales (ICAEW), has been working with business psychology consultancy Crelos, to explore how modern business psychology practices can be used to select and develop Boards and top teams that are fit for purpose.

Whilst it is the responsibility of the board to choose non-executive directors with the right mix of skills and abilities, research shows that they are often appointed because of who they know rather than by an objective assessment of capability and fit. Non-executives who are committed to being the best, should consider an objective review of their own skills and capabilities annually, in this way, gaps can be planned for and non-executives will reduce the risk of being appointed to positions for which they later discover that they are poorly equipped.

Sir David's report focuses important attention on the principle deficiencies of Boards, 'relating much more to patterns of behaviour than to organisation'. But, his report doesn't seems to sufficiently explore or acknowledge the irrational side of human functioning – denial, greed, hatred, fear – all the dynamics that contribute to 'groupthink' and which have contributed to the current financial crises. Even if non-executives do take up Sir David's proposal to increase the amount of time commitment for each appointment from 20 days a year to 30-36 days, this is not sufficient to guarantee that these dynamics will change. We would propose that Boards and their directors should commit a minimum of 6 days a year for the purpose of review and active development supported by professionals trained in identifying, challenging and changing these dynamics.

40 per cent of a business' superior return on investment and 35 per cent of its income growth stem from the strength of the CEO and the management team, yet they are rarely fully professionally assessed to ensure they have the capability to deliver on a business plan. Equally, as the business plan unfolds against an ever shifting business background new capabilities may need to be developed or brought in to the top team to drive continued success.

Crelos and the ICAEW have produced a set of guidelines - *Due Diligence – The Assessment and Development of Management Teams"* - which address these issues. The guidelines use Crelos' precise psychological measurement model of people and teams. This can predict the performance of management teams and define how they can become more effective. It provides a set of metrics that can be used as value drivers by linking to the priorities of the business. In this way, management practice is inextricably linked to cash flow, profitability and value creation.

So how exactly does this work? The starting point for any management team assessment is to get to know the business. What industry is it in? What challenges does it face? What is the company's culture? And, most importantly, what are the short and long term objectives; the strategic imperatives facing that business? Armed with a clear criteria, individual leaders and leadership teams can be benchmarked to show how their current capability compares to leaders of high growth and high performing business units.

To give an example, the recent review of a Board operating in the built environment sector revealed that their strategic thinking and problem solving capabilities were flawed by poor interpersonal dynamics. Board meetings rarely kept to time and the business was suffering from poor quality and often delayed decisions. Executive assessment and coaching were used to effect change at an individual level and Crelos' team interaction approach was used to develop the Board's ability to constructively challenge and think more effectively together.

Different roles and different organisations require unique skill sets at any one time and these will change as a business changes. The trick is to link what people will do (their intrinsic motivation) with what they are capable of doing (their intellectual ability, behaviour and experience).

The precision with which the measurement and development of people and teams has evolved over the last 10 years is immense. They key challenge for board members and management teams is to become familiar with the tools and techniques available, to try not to be put off by the ubiquitous jargon of psychologists and to fully engage with these fellow professionals. When used properly, these techniques can give businesses a unique edge in even the hardest markets.

Ali Gill is CEO of Crelos. She can be contacted on 01491 845 535 or visit www.crelos.com