# PEAK PERFORMANCE

*Faced with a rapidly changing operating environment, management boards may enhance their effectiveness with specifically designed board-audit and development programs.*

By Stefanie Rossel

Judging from PricewaterhouseCoopers' (PwC) 18th Annual Global CEO Survey, which the company presented during the Davos Economic Forum in January, adaptability will be the main attribute of organizations for future success. According to the report, companies today operate in an increasingly confusing marketplace and in a competitive landscape that is rapidly and radically reshaping, with competition coming from new and previously unseen sources. A wide range of industries is being disrupted by regulatory changes, increasing competition and new patterns of consumer behavior.

Of the 1,322 CEOs interviewed, 78 percent were concerned about over-regulation. One-third of the CEOs said they had entered new industries in the past three years, while 56 percent anticipated increased competition among organizations in new sectors within the next three years. Even though the study was carried out across a variety of industries, the themes raised will sound all too familiar to tobacco executives.

PwC suggests that, in order to remain competitive, organizations need to focus on their key capabilities, which make them unique, and, once they understand their strengths, ensure there is strong cohesion between their organization's capabilities, value proposition, and product and service offerings. In other words, companies need to improve their governance, and this is a top-down process because only competent and efficient management boards are capable of creating maximum value in an organization.

One would imagine that anyone who has made it to the helm of a company should be well-prepared for this task and that working and decisionmaking processes in a management board made up of experts in their respective fields should function smoothly because of the members' long-term leading experience. But all too often, this is not the case. Governance is a rather technical issue that needs to be delivered but in itself does not create any additional value for an organization—it only minimizes risk. Management development and boardroom effectiveness are issues that are often neglected. However, in order to work efficiently, management boards need to be well-acquainted with the use of governance as a tool.

Sabine Dembkowski and Stefan Wegener

## Risking value destruction

"To say it bluntly, it is here [in the management board] that the value-creation process is initiated, and it is here that directions are set for value destruction," explains Sabine Dembkowski, managing partner at Better Boards, a U.K.-based consultancy dedicated to the development of management boards and individual board members. She and her business partner, Stefan Wegener, have both spent many years in top management consultancy. "The value that is destroyed by in-fights on the management board, positioning games and not working as one are almost never calculated," Dembkowski adds. "People may be more or less well-selected but quite often ill-prepared for the challenges of being on a board."

Dembkowski has observed that the management board and the rest of the organization are often disconnected, and board members fail to act as role models. Sometimes there is friction between the individual board members, combined with a lack of problem-solving skills. Frequently, high self-esteem meets low track records, and, interestingly, there often is a lack of structure and discipline in board meetings and in their preparation. Board members are too focused on functions rather than on customers and employees.

A recent survey by the U.K.-based Institute of Directors indicated that nine out of 10 directors are given no preparation at all for their role on the board, and nearly 70 percent reported that they received no formal assistance after their appointment.

If a management board doesn't cooperate well, members are sometimes replaced, which is a costly process for an organization, amounting to £1.5 million to £2 million ($2.31 million to $3.08 million) per person, Wegener estimates. "And this does not even take into account the cost of lost value generation for a company caused by the standstill until a new management board member has been found," he says.

## Gaining new insights

While larger companies usually have development programs for their employees, Dembkowski points out that almost all of them are targeted at executives below the management board. "The current offers for members of management boards are quite limited and may include assessments, mentoring and high-end coaching. However, when we dived deeper and analyzed the offerings in greater depth, we found that most assessments sold to that group are, in fact, not specifically tailored to the management board context and consist of variables that are rather general, like, for example, leadership and/or general management capabilities."

Based on research, in-depth interviews with members of management boards and analysis of audits of leading headhunting firms, her consultancy identified the issues that cause problems on a management board and has developed a tool and a board advisory process that tackles precisely the issues that make a management board more effective. It provides insights into the crucial levers that make the difference. "The tool allows for a self-evaluation as well as drawing in the feedback of board colleagues and crucial stakeholders like investors, direct reports, clients/customers, etc.," Dembkowski says.

Named the "seven variables of board effectiveness," the tool focuses on composition of the management board, the ability of the board to use the strengths of its members, clarity about roles and responsibilities, and a joint vision. It also works on the ability to solve conflicts between the board and its management and the structure and organization of the board's work, and it provides regular reviews and reflection on the board's work.

"The report provides for in-depth insights into self-perception, perception of others and the difference between the two with regards to all crucial levers. We then schedule for confidential one-on-one sessions with the board members," says Dembkowski. Confidentially is of utmost priority, she says. The report is only visible to the member of the management board and the board advisor providing the feedback. "He or she can decide themselves whether they wish to share it with anyone. The data is stored in a country outside of where the assignment takes place," says Dembkowski.

Feedback sessions may take up to four hours, and each ends with an agreement about a personal action plan. Several weeks after the individual conversations have taken place, Better Boards plans for a board working session, where aggregated group results are discussed and an agenda is tailored to the needs of the business at that time. These working sessions generally last one and a half to two days and again result in an action plan for the team. "The insights gained from the display of the data need to be transformed into an actionable plan," says Wegener. "This task is quite often underestimated, and it takes a skillful approach to a conversation to guide


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Ideally, the management board is the place where the value-creation process is initiated. Under the wrong circumstances, however, the board can also be the source of value destruction.

leaders from understanding the data to a point where they really have insights into the impact of their behavior on others and decide on actions they can take to create value. Most coaching approaches cut far too short. This is a management advisory task that requires that one understands not only the levers of what makes boards more effective but also the levers of value creation in an organization."

## Tailor-made approach

While some management boards may recognize the necessity for continuous development, it is obvious that not all board members will welcome the measure. "The main concern initially is that this is an assessment that results in a report [indicating] who is in and who is out. It is not!" Dembkowski says. "We explain that this process is designed to provide insights to strengthen each and every one on the board and help the board to develop along the variables that really do matter."

Organizations whose management boards have passed the "seven variables" assessment, Wegener says, benefit from an increased level of effectiveness of the management board, which has a positive impact on the hierarchical levels below the boards and minimizes the need to initiate expensive programs and initiatives on those levels. It also lowers the risk of value destruction and increases the chance of value creation. Derailment of board talent may be avoided. The organization is provided with a tool it can use in the future without the consultancy's support to allow for continuous development of the management board.

Companies listed at the New York Stock Exchange and London Stock Exchange are obliged to regularly prove the governance and competence of their management boards, but currently there is no standard for this. "More and more companies are becoming active and see an audit as good practice. However, most audits cut too short at this stage. They are mere box-ticking exercises," explains Dembkowski. "We provide management boards and organizations with a thought-out management process that allows us to collect more data than most approaches that are to this date based on face-to-face interviews. And [we] have very consciously opted for this approach so that clients can get a greater bang for their buck as we extended the process and rather spend more time in individual feedback conversation and elaborate group-working sessions. Future-oriented supervisory boards, chairmen, investors and CEOs want to gain insights into how they can develop and strengthen the board, and this is exactly what we do." TR