Governance Development in Northland

(Draft)

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2005

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A research report presented to the Research Committee of NorthTec

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Contents

Executive Summary

Effective governance is a vital leadership function for a wide range of organisations in Northland. Identifying and developing key elements of governance excellence will enhance both organisational development and regional development.

This research project identified the key elements of governance excellence. To establish a useful development tool, these elements have been sorted into four dimensions:

- tasks – the essential work of the board
- processes – how the work is done
- capacity – how the board develops
- context – connection with the wider community

Members from a variety of Northland boards were interviewed to gauge board performance in these dimensions. Most of these people had significant experience in governance, some having roles on more than one board.

The data reveals that boards are strongest in the task and context dimensions. Aspects of process were weaker. Boards performed weakest in the capacity dimension. This report points to some clear strategies for governance development and presents a set of recommendations.

1. Develop an annual professional development plan for the board and for board members.
2. Use a range of tools to evaluate board performance.
3. Develop a succession plan, especially for the CE and chair.
4. Assess the impact of the maturation cycle of the board.
5. Include a professional development component on the "learning organisation".

Part one: Literature Review - Best practice and the context of governance.

Introduction

Governance is a universal phenomenon that has been and is a popular vehicle to lead diverse communities. In tribal societies, the tribal council filled this role; in larger collectives many forms of governance emerged as communities became more complex. In present day Northland governing bodies lead a few corporates, government organisations, and community and Iwi organisations.

> Governance is the structure of relationships that bring about organisational coherence, authorise policies, plans and decisions, and account for their probity, responsiveness, and cost-effectiveness.

> Gallagher, cited by Edwards (2003:11)

The United Nations identifies the characteristics of good governance as inclusive participation, rule of law, transparency, responsiveness, consensus orientation, equity, effectiveness and efficiency, accountability, and strategic vision (Edwards, 2003).

While the context has changed over the centuries, what endures is the core function of leading communities through human dialogue.

There is now an abundance of literature about Governance. There are numerous models, measures of best practice (Nahkies 1999) and surveys (Chamran, 1998 www.sequus.org) to assist directors to come to terms with the complexities of their roles. Nahkies (1999) clarifies the distinction between models and best practice. Models offer theoretical frameworks; best practice is based on observation of the successful application of available theories.

Governance principles and measures of best practice can be to a large extent global. While many distinguish between for-profit and not-for-profit requisites of governance, there is clearly a lot of common ground between the two (Edwards, 2003).

This paper seeks to identify developmental needs for Governance, specifically in Northland. Gaps between current reality and the ideal first require some consensus about was is ideal and some agreement on current reality.

The first part of this section explores dimensions of governance to identify requisite elements of governance and some measures of best practice. The second section establishes methods to identify current reality.

Four useful documents that attempt to shed light on the complexity of governance are:

- o Nankies (1999) Governance – Best Practice,
- o Charan's (1998) survey from *Boards at Work; How Corporate Boards Create Competitive Advantage*.

- Sequus survey (www.sequus.org) based on *Boards in the Non-Profit Organization*.
- Van der Walt and Ingley's (2000) paper *Evaluating Board Effectiveness: The Changing Context of Strategic Governance* offers a contextual framework not explicit in theses other models.

Comparing and contrasting these documents allow for some triangulation of concepts in an attempt to identify dimensions of ideal governance.

In synthesising these sources the four dimensions they cover include task, process, issues of capacity, and context. These can be described as what the board has to do, how it does it, its ability to perform, and where it does it.

These sources identify **tasks** that governing bodies must ideally perform. These include:

- establishing a constitution, structure, and relevant policies and procedures
- defining and respecting boundaries between governance and management
- setting and monitoring performance expectations through the CE
- guiding strategy
- ensuring financial viability
- complying with statutory requirements and overseeing audits
- managing risk

While the above tasks are specific (but not exclusive to) governance, **processes** are generic. For example, the task of guiding strategy requires thinking, planning, and communicating skills. These process skills are required to execute other governance tasks. This distinction between task and process facilitates clearer analysis of development needs. Processes identified in these four models are:

- meetings
- thinking
- planning
- decision-making
- time-management
- developing and maintaining relationships
- monitoring
- succession planning
- leadership
- effective dialogue
- effective sub-committees or working parties
- participation
- new member orientation

- o productive conflict
- o problem solving
- o relationships with staff

Issues of *capacity* warrant separate consideration. While they may be tasks for boards, they can be regarded as maintenance tasks. They include:
- o self evaluation
- o professional development
- o diversity
- o succession
- o capability
- o ethical standards

Contextual or *environmental* dimensions are those external threats or opportunities that boards must be mindful of. They are:
- o environmental awareness of opportunities, threats, and trends
- o long term plans
- o networking
- o owner and stakeholder relations.

Board tasks

1. Establishing a constitution, structure, and relevant policies and procedures
All governing bodies will have guiding documents. In both profit and not-for-profit organisations statute require some documents. Other guiding documents are adopted where there is belief in their utility. The constitution (or charter) and related documents such as policies and procedures guide the boards work on behalf of the owners.

Boardworks (1999) recommend a framework that includes policies outlining:

- o   strategic results or outcomes to be achieved
- o   the board's operating principles and processes
- o   the relationship between the board and CE (Chief Executive) and supporting processes
- o   the parameters of CE responsibility and accountability.

Garratt (1997) recommends policy on purpose, vision and values, emotional climate and culture, and monitoring the external environment.

An important constitutional principle is that the board is the only governing body. The practice of having a larger auxiliary council or other governance body is generally is thought to confuse accountability (Nahkies, 1999).

However fixed principles sometimes inhibit the development of new models. The acceptance of the Treaty of Waitangi as a founding document of our nation has led some to implement models of governance that enshrine the partnership principle. The two councils of Waiariki Polytechnic are an example.

Garrat (1997) offers four models of boards.
- o   The non-executive board, effectively controlled by independent directors, who control the CE.
- o   The executive board, common in the US. This board is often dominated by the chairman, who also may be the CE.
- o   The two-tier board, popular in the EU has a supervisory and operational boards.
- o   The unitary board, based on the assumption that all directors are equal, is Garratt's favoured model.

2. Defining and respecting boundaries between governance and management
Governance and Management
A widely accepted principle of governance is that boards govern, not manage their organisation.

Carver's (2001) model of governance has been widely accepted. It focuses on the board's role from a policy perspective distinguishing between "ends" and "means" policies. "Ends" are matters concerned with organisational purpose. They are about the organisation's impact on the world - that which justifies its existence. "Means" are the organisation's pathway towards its ends. Ends policies are in the realm of governance. Means are the responsibility of the CE.

Both the CE and the board have clear guidelines that provide clarity around its delegation to the CE. The board monitors organisational performance. Its reporting systems enable it to respond quickly to significant variances. (Boardworks, 1999)

The board should not normally interfere with staff "means" decisions, but can for reasons of prudence and ethics. The organisation will benefit from a strong CE, but to ensure prudence and accountability, the CE's power must be bounded. Delegation of means frees and empowers the CE to focus on means enabling management flexibility, creativity and timeliness. The board is freed from the close scrutiny of organisational means (Carver & Carver, 2001).

Four categories of ends policies are executive limitations, ends, governance process, and board-staff linkage. An executive limitations policy spells out the boundaries to the CE's delegation. Both the board and the CE must be clear about their respective delegation and accountability (Carver & Carver, 2001).

Charam (1998) states effective boards influence decisions whereas managers make decisions. The board has to balance tendencies to, on one hand, micromanage, and on the other hand, if too trusting, merely rubber stamp (Carver & Carver, 2001).

Boardworks International (2002, p2) uses the analogy of a car. "Most directors are like the average car owner. They drive the car in good faith, having an ear to the running noises and an eye to the dashboard. They rely, however on a trained mechanic to look under the bonnet and provide a detailed read-out on the overall performance".

One approach is to establish key performance indicators (KPIs), which can be likened to dash board gauges. Ideally these are updated in real time, but failing that reporting should be quite frequent. It is of little use to know that, six months ago your car's petrol tank was half full.

Executive Information Systems (EIS) provide a "forest and trees" perspective of the organisation. The executive can get live updates of critical KPIs and, if necessary, drill down for further information. It would be beneficial for directors to have access to the same quality of information. The CE Review website offers an excellent overview of executive information systems.

The Carvers (2001) recommend the CE as the sole delegatee of the board. This simplifies the relationship between the board, who in effect have one employee, and the organisation. Traditional models of governance tend to be more CE-centric than the Çarver model. Through its delegation to the CE the board controls the organisation. Board members should avoid giving advice to staff.

This does not mean the board should focus soley on the CE. Over time the organisation will survive many CEs. In the US, some boards are increasingly focusing on organisational effectiveness rather than CE effectiveness (Pound, 2000). Organisational effectiveness is enhanced through an effective board - CE relationship.

Strict adherence to the Carver Model has been useful in clarifying governance-management boundaries. However good ideas can become doctrinal. A useful balancing concept is that of situational governance (www.sequus.org). As with similar concepts such as situational leadership (Hersey, Blanchard, & Johnson 2000) situational governance is mindful of the need to separate governance and management, but also recognises that some situations will require a more hands on approach by the board. Such situations might include a crisis or the requirements of a small organization.

Reliance on the CE as the sole conduit of information between the board and the organisation is dangerous; "A director who knows the business ensures that the chief executive is not the sole filter of inside knowledge" (Sonnefeld 2004:38).

3. Setting and monitoring performance expectations through the CE

> Timely, constructive feedback from the board is the single best way to make a good CE better and create competitive advantage. Make the feedback process ongoing, not a special event.
>
> (Charan, 1998:174).

Appointing the chief executive
Perhaps the board's most critical task is the appointment of the CE. While many attempts have been made to standardise appointment procedures to ensure a candidate will perform, recruitment still seems to be more of an art than a science.

With current practice requiring the board to guide the organisation through the CE, the board CE relationship is critical. The Carver's (2001) state that CE and organisational effectiveness are synonymous.

Setting performance targets
The board sets performance criteria expressed primarily as results to be achieved and circumstances to be avoided (Boardworks, 1999). It is essential the board clearly communicates its expectations to the CE in advance of the review period. The CE must know exactly what is expected (Carver & Carver, 2000).

Linking compensation and performance is now common practice. The board's CE compensation package should not reward short term gains over organisational sustainability (Salmon, 2000). An increasing number of voices are disputing the value of incentives. Do we want a CE who responds to financial incentives or higher aspirations (Caulkin, 2005[1])?

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[1] Caulkin reviews *Happiness: Lessons from a New Science* by Richard Laynard.

Monitoring and appraisal

The board also has the right to monitor any policy at any time using any suitable method (Boardworks, 1999). Charan (1998) advocates full board involvement in CE appraisal. Charan also advocates after meeting "huddles" where the CEs performance is discussed. This feedback can be passed on to CEs to ensure they have the benefit of this collective knowledge.

While the CEs performance might be formally reviewed annually, monitoring evaluative data is an ongoing process. The formal evaluation is a summary of data gathered from on-going monitoring. The data the board normally collects is clearly linked to CE and organisational effectiveness. (Carver & Carver, 2001).

Charan (1998, p 154) suggests the following criteria for appraising CE performance:

- o Where is the company headed?
- o Does the CE put reality on the table?
- o Does the CE have a handle on operations?
- o Is the CE creating the management team of the future?
- o Is the CE building positive relationships with external constituents?
- o Does the CE deliver results?

These criteria are regarded by Charan as subjective, but relevant. He advocates a process based on a hybrid model of structured, perhaps quantitative questions with open qualitative questions. This approach combines analysis and intuition.

4. Guiding strategy

Two frameworks for setting strategic direction are:

1. The development of "ends" policies using the Carver Policy Governance model.
2. The development of vision, mission, values statements and supporting documents such as key performance indicators (Boardworks, 1999).

Boardworks International (1998) suggests boards should leave strategic planning, the detail of how the organisation attains its goals and fulfills its mission to the executive. The board's role is to focus on strategic thinking, which precedes strategic planning. Strategic thinking directs the board's attention to the development of an understanding about the external environment.

Strategic thinking provides a future focus that helps counter a tendency for boards to be reactive.

Donaldson (2000) writing from a US perspective, infers strategy is mainly in the hands of the executive and should be monitored by the board with a strategy audit. From a New Zealand perspective, this view does not preclude the board leading strategic direction and leaving strategic planning to the executive.

Gattatt (1997) distinguishes between strategic planning and strategic thinking. If the board ventures into strategic planning they run the risk of getting bogged down by numbers and plans. Planning is operational whereas strategic thinking is in the board's realm.

The board's strategic thinking involves understanding the external environment, understanding the key issues for the organisational effectiveness and setting strategy (Boardworks, 1999).

Examples of strategic thinking tools are environmental scanning and swot analysis. A Cornell University web page (www.cce.cornell.edu) provides useful background on these tools.

Garratt (1997) offers a ten step strategic thinking framework that includes environmental scanning tools and elements of Porter's value chain.

5. Ensuring financial viability

Financial policies address matters such as budgeting criteria, day to day financial management, protection of assets, staff remuneration and benefits, financial reserves, investment practices and letting of contracts. (Boardworks, 1999)

The board needs to know the organisation is solvent.

> Following on closely behind will be a range of other financial data, some in the form of ratios, other data presented as graphs, financial reports and analysis, e.g. a balance sheet, consolidated P&L account, cash flow situation and analysis. . . Boards commonly request financial information on a meeting-by-meeting basis".
>
> (Boardworks International, 2002:4)

The budget is the CE's planning and working document. The criteria for the development and ongoing management of the budget belong to the board. (Boardworks, 1999)

Board policies will outline and limit delegations to the CE. Asset protection should also be covered in board financial policy.

Boards can establish monitoring devices such as ratios or key performance indicators that will give both a snap shot of current status and reliable longitudinal data. These measures are complimented by softer data such as climate surveys (Garratt, 1997).

6. Complying with statutory requirements and overseeing audits

Both commercial and non-commercial boards are subject to legislative requirements. In New Zealand the Company's Act 1993 establishes requirements for commercial boards. Non-commercial boards are enacted by and are accountable to relevant legislation. For Boards of Trustees and Polytechnic councils it is the Education Act 1989.

Reporting mechanisms the board uses to monitor the organisation's performance should be concise and directly related to stated performance expectations (Carver & Carver, 2000).

In New Zealand, board's responsibilities and liabilities are influenced by these acts:

- o Companies Act 1993
- o Resource Management Act 1991

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- Building Act 1991
- Health and Safety in Employment Act 1992
- Privacy Act 1993
- Fair Trading Act 1986
- Commerce Act 1986
- Financial Reporting Act 1993 (Garratt, 1997)
- Employment Relations Act (2000)

Malpractice in companies such as Enron highlight the need for effective audit. If an audit committee is in place its members should be non-executive directors.

While New Zealand companies are relatively good at ensuring audits are completed, note that audits can be useful for non-financial functions such as health and safety, environmental performance, stakeholder communication and people development.

7. Managing risk
A dilemma for the board is to be adventurous and risk-taking, while exercising proper fiduciary control. Assesing organisational risk is a key role for boards. Board members must accept risk as an unavoidable element in all organisational activity. The challenge is balance avoidance of risk without becoming risk-averse. The board sets the framework for the management of organisational risk. Internal risks are identified, managed and monitored and external risks are defined and monitored (Boardworks, 1999)

Risk management ideally becomes an integral part of decision making processes (Edwards, 2003).

Board Processes

A board contains a number of members serving on the board to lend their expertise, or perhaps to represent another group of people. The quality of decision-making in boards will be determined by the quality of the relationships of the board members and their communication.

There are inherent dangers in board structures. Non-executive board members may only be exposed to the organisation through the board. Without the extensive knowledge of the organisation the executive has, they can tend to defer to executive judgement. I recently was told of a board (not in Northland) that only meets six times annually. The first three hours are briefings (information dumps) by the executive and other staff. The second part of the meeting is one and a half hours long. This board has nine hours annually to add value to the organisation. How much of the nine hours is dominated by the executive? My informant perceives that this board merely rubber stamps executive decisions. What advantage is to be gained from this process?

The board drives the CE; the CE does not drive the board. The board drives the meeting agenda, not staff. Amassing reports about organisational performance and conscientiously listening to staff reports does not substitute for governance (Carver & Carver, 2001).

The governance process described above is more feudal than democratic.

> The key isn't structural, it's social. The most involved, diligent, value adding boards may or may not follow every recommendation in the good governance handbook. What distinguishes exemplary boards is that they are robust, effective social systems.

(Sonnenfeld, 2002:109)

Given Sonnefeld's assertions of board efficacy, it seems that the social processes of the board are fertile ground for those seeking to improve board effectiveness.

In this study, processes have been decoupled from the task they are associated with to separate specific board tasks from generic processes. The processes identified are:

- o meetings
- o thinking
- o planning
- o decision-making
- o time-management
- o developing and maintaining relationships
- o monitoring
- o succession planning
- o leadership

- effective dialogue
- effective sub-committees or working parties
- participation
- new member orientation
- productive conflict
- problem solving

As these processes are generic, they are not discussed here individually. They are discussed where they need to be considered in the context of board functions. The themes that emerge are;

- unity of action
- building relationships
- meetings
- learning orientation

Unity of action

The power of the board resides in the board as a whole, not board members. When board members speak for the board, their authority derives from resolutions from the whole board. The board speaks with one voice or not at all. (Carver & Carver, 2001; Charan,1998). A recent example from the North Shore City Council illustrates the importance of a unified council. One councillor objected to the use of prayer at meetings and was so determined to champion his own perspective that the matter was raised in the media, gathering far more attention than merited. (NZ City 2003). In New Zealand's parliamentary system this principle is expressed in the principle of collective Cabinet responsibility.

The board, rather than the chairman directs the CE (Carver & Carver, 2001).

> The real value of the board lies in its collective wisdom and perspective. The best learning comes from the candid exchange of ideas on issues that are critical to business. One-on-one relationships between the CE and individual directors do not accomplish the same thing. Boards must learn to function as a group.

(Charan, 1998:18).

The board is the governing body and should avoid delegating board duties to officers or standing committees. The Carver (2001) model advocates few or no sub-committees, believing these damage the board's ability to hold the CE accountable. Executive committees have a negative impact in that they create a two-tier board. They are a "relic of the past" (Charan,1998, p69).

Working parties have set tasks and a finite life. Working parties are less likely to become institutionalised and subvert the work of the full board. Charan (1998) advocates a limited number of committees and endorses the trend that sees the full board being the forum for major decisions.

Building relationships

The board collectively has a web of relationships to develop and maintain. The social capital generated by relatedness, is perhaps more important than more tangible forms of capital.

Solid relationships are based, among other things, on mutual respect. A solid foundation of mutual respect opens up opportunities to give productive feedback. In a less respectful climate, feedback is perceived as more threatening and the response will probably be defensive rather than receptive.

> At its heart, good governance is about strong relationships and shared understandings among people. Research shows that improvements in governance are most likely to come from sound social interactions and involvement in the right mix of people, skills, understandings, and attributes.
>
> (Edwards, 2003:6)

> People, teamwork, leadership, enterprise, experience and skills are what really produce prosperity. There is no single formula to weld these together, and it is dangerous to encourage the belief that rules and regulations about structure will deliver success.
>
> (Hempel Committee on Corporate Governance, cited in Shattock, 2003:3)

Ideally there will be a trust and mutual respect between the board and the CE. The board needs to be confident the CE is open and honest with key information as the CE is usually the board's main window into the organisation. CEs will hopefully feel they have the support of the board.

Other key relationships are between board members and with stakeholder groups.

A doctrinal adherence to the principle that the board drives the organisation through the CE will limit the board's intelligence. Effective boards will have relationships with other staff members and will seek information from diverse sources. The challenge for board members is to have relationships that enable dialogue without the board member directing staff in any way.

> Directors of boards that work expect to add value, and CEOs welcome the input. They are accountable to each other and in pursuit of the same goal - namely, to make the company perform better.
>
> (Charan, 1998:35).

Meetings

> The most revealing indicator of board effectiveness is the quality of the dialogue in committees and in the boardroom.
>
> (Charan, 1998: 264)

Meetings can operate in two modes, monologue and dialogue. Monologue informs and explains. If monologue is the dominant mode in the meeting there is little chance of the meeting producing new insights. Where space is made for dialogue the board has greater potential to add value to the organisation.

Effective dialogue may require longer meetings. "Directors must have a chance to get immersed in the issues and dig below the surface. Two-day 'breakthrough sessions' can kick start the dialogue for boards that are not accustomed to talking openly. These sessions can establish new norms of behaviour that carry over into regular board meetings. They push the board dynamics to a whole new level" (Charan, 1998:265).

Charan (1998) advocates the use of board retreats for breakthrough thinking.

Meetings should deal with a few thoroughly considered items, not a large number of small items (Carver & Carver, 2001).

When meetings fail to adequately cover agenda items, the fault may be:

- o poor role definition - the board deals with "means" rather than "ends"
- o insufficient board ownership and control of its own agenda
- o poor planning - a lack of a structured annual agenda cycle

Solutions might include:

- o adopt a formal Board charter - have clarity about the role and processes.
- o prepare an annual agenda
- o prioritise the sequence of topics - monitoring and reports often crowd the top of the agenda leaving directors in listening mode - consider placing developmental matters at the top of the agenda occasionally
- o allocate times to agenda items
- o use a 'consent' agenda i.e. group routine items suitable for approval without discussion
- o find effective ways to convey 'general information' - listservs and websites, especially content management ststems have potential here
- o through the process of continuous improvement, develop the quality of documentation coming from staff
- o monitor the quality of facilitation and support the chair.

Monthly Board meetings can over-burden the CE as significant preparation is required for each meeting. Some boards meet less frequently for longer meetings. Meeting less than every two months may hamper the development of a strong team. (Boardworks, 1999)

Board size
The prevailing wisdom favours smaller boards. With more than ten at the table effective inclusive dialogue is difficult to achieve. While most governance writers agree that smaller is better, there is no clear consensus on the ideal number. Nakhies (1999) suggests group theory points towards less than ten, with seven being the ideal number. Salmon (2000) suggests 8 to 15.

Shattock (2003) offers another perspective. Some university councils in the U.K. have over 50 members. These organisations are successful and sustainable. They are proudly independent. Tertiary councils in the U.S. and Australia are also often large (13 to 35 members). Edwards (2003) cites research that finds no correlation

between board size and board performance. Indeed small boards are promoted by those who want to reduce stakeholder representation.

Leadership

The Carvers (2002) promote the concept of the servant leader as developed by Robert Greenleaf. For more detail see the Greenleaf website. The servant leadership role is relevant not just the chair but also the board. The board is seen as first the servant and then leader on behalf of the owners.

The chair's responsibilities include ensuring board members get relevant information in time for them to reflect on it before meetings (Garratt, 1997).

Learning orientation

The Carvers (2002, p2) characterise boards as "incompetent groups of competent individuals". They cite widely help perceptions of the ineffectiveness of boards.

The concept of the learning organisation became influential during the last decade. Henry Mintzberg suggests "is both the biggest breakthrough in business and management thinking of the last few decades and is, most importantly, sustainable" (Garratt, 2000). Garratt maintains the rate of learning must be greater than or equal to the rate of change. To prosper in today's dynamic business environment organisation must have means of learning from both their external and internal environments. Learning enables an organisation to adapt, change and anticipate the need for further change. See the Society for Organizational Learning website.

Boards must ensure the organisation has the emotional climate to encourage learning. People must be encouraged to be learning orientated. The organisation should have effective knowledge management systems in place. It is important that the board learns from its mistakes (Garratt, 1997).

In the best boards "directors and managers broaden each other's perspectives , benefit from each other's judgements, and learn together" (Charan, 1998, p xiii).

The Carver (2001) model advocates that boards require information from a variety of sources to increase the board's wisdom.

Dialogue is regarded as a key practice fostering organisational learning (Senge 1990). Charan (1998:35) believes effective board dialogue is fundamental to the organisation's success. "Dialogue is a revealing indicator of board effectiveness. To achieve better governance, adopt practices that will improve the character of the dialogue" (Charan, 1998, p 35).

Practices of the learning organisation foster a nurturing culture rather than a defensive culture that spends time resisting ideas. A "we'll help you" attitude is more productive than "we got you". If the board acts as a watchdog "it will have trouble achieving the kind of collegiality and cooperation that help the board understand the company and contribute to its success" (Charan, 1998:153).

> Improvements in Governance are most likely to be derived from sound social interactions on the governing board, strong leadership by the chair, a balanced and participative skills mix, and healthy relationships that allow for healthy debate and effective handling of the inevitable conflict that will arise.
>
> (Edwards, 2003)

Capacity

In addition to the tasks the board must execute and the processes it develops, the board's current capacity and its potential must be nurtured. Relevant factors are the composition of the board, ethical standards, succession and member and board appraisal.

Board composition

In addition to the inclusion of non-executive directors boards should be diverse. There is a perceived conflict between wider stakeholder representation and the provision of skill and knowledge.

Diversity

Organisations, at all levels, should reflect the diversity and composition of the communities they operate in. The Equal Employment Opportunities Trust website provides background. Over 20 years ago Rosabeth Moss Kanter (1997) identified the process whereby males, typically white males, tend to select people like themselves to populate the upper levels of the organisation. Kanter labelled this tendency "homosexual reproduction". This creates an environment where sycophancy thrives.

Board performance should improve as board membership becomes more diverse. A common failing with boards is their tendency to recruit people similar to existing members. Garrett (1997) identifies this lack of diversity on English boards. His survey of UK boards revealed less than 5% of board members were women. Garrett (1997:20) has been unpleasantly surprised at the number of times he has been told "that a US board of directors comprises 'ten friends of the Chief Executive, a woman, and a black'".

Stakeholder representation

There is trend both for commercial and public organizations to recognize the importance of stakeholders (Bruce, 2000; Edwards, 2003). In the corporate world an increasing number of companies are reporting financial, social and environmental bottom lines. Companies such as Shell have transformed from autonomous organisations that operated with its own agenda with impunity, to a company mindful of social and environmental context it operates in (Liversey 2001). Shell is now recognised as producing among the best sustainability reports (Global Reporters (2002). New Zealand's Local Government Act 2002 requires councils to report on financial, environmental, social, and cultural impacts. The Ministry of Education, in its review of tertiary governance has established stakeholder representation as a cornerstone of governance design. Stakeholder representation builds democratic principles of representation. Representatives should adopt a trusteeship or stewardship principle in that they place the interests of the organisation ahead of those of the groups they represent (Edwards, 2003).

There is a false dichotomy that boards must seek either representation or skills. It must be possible to find skilled representatives. Requisite skills need to be clarified given the increasing weight of evidence that portrays effective councils as robust social systems.

Ethical standards.
Collectively and individually the board and board members establish and maintain ethical standards. Fiduciary duties include the duty of loyalty and the duty of care (Nakhies, 1999). "Duty of care" describes the level of competence that is expected of a board member, and is commonly expressed as the duty of "care that an ordinarily prudent person would exercise in a like position and under similar circumstances." The "duty of loyalty " is a standard of faithfulness; a board member must give undivided allegiance when making decisions affecting the organisation. This means that a board member can never use information obtained as a member for personal gain, but must act in the best interests of the organisation (Boardsource, 2002).

A focus on values and ethics creates a grey area between Carver and Carver's (2001) "means" and "ends".

Succession
When the organisation is performing well and is supported by a strong culture it may be advantageous to appoint an existing staff member to be CE. The directors can mix with potential leaders both formally and socially to enable informed decisions to be made about their character and ability. Succession plans can coincide with the promotion of leadership through management development. (Charan, 1998)

A strong and competent chair supports effective governance. The board should have a succession plan for the chair. In tertiary education governance New Zealand's practice of appointing a chair for one year is out of step with other countries who appoint for longer periods (Shattock, 2003).

Member competency
While often board members are sought for skills that mirror the skills required by management, it is more important that board members are skilled in the requisites of governance (Carver & Carver, 2001). For example skills of dialogue, problem solving, strategic thinking are important. "The power of the board as a competitive weapon depends on the quality and diversity of the directors" (Charan, 1998:70).

Phil Hanford identifies strategic thinking as longer term, conceptual, reflective/learning, identification of key issues and opportunities, and ground-breaking.   Strategic thinking is "hands off" and takes a "helicopter" perspective (Boardworks International, 1998).

Diversity helps here. "Boards can and should go hard on the issue of racial, gender, ethnic, and global diversity but not at the expense of other criteria" (Charan, 1998:76). There are people available from diverse backgrounds who have the requisite qualities to be good board members and have the business and decision-making capability.

Ideally boards members will have current business experience at senior level. (Charan, 1998). Pound (2000) believes directors must have expertise in the company's industry and skills in finance, meeting procedure and strategic focus. Effective oversight of finance and strategy is supported by complimentary skill sets of financial analysis and intuition (Garratt, 1997).

Effective directors "ask incisive questions, constructively challenge management's assumptions, and express honest opinions" (Charan, 1998:35).

"… each director should have something important to contribute and should be able to function well in a group of equals" (Charan, 1998:70).

Board effectiveness

A group of highly competent individuals will not necessarily create an effective board. The board can appoint an external agent to conduct an appraisal, but also conduct self appraisals.

> Appraisals can help boards become more effective by clarifying the individual and collective responsibilities. They can help improve the relationship between a company's board and its senior management. They can help ensure a healthy balance of power between the board and the CEO. And, once in place, an appraisal process is difficult to dismantle, making it harder for a new CEO to dominate a board or avoid being held accountable for poor performance.
>
> (Conger, Finegold & Lawler, 2000).

Peer assessment is threatening to some, but advantageous as the board gains maturity. Peer assessment should have a developmental focus (Charan, 1998).

Self – evaluation is challenging as it requires a level of candour that can seem threatening. The board that aspires to open dialogue and stark self-assessment will learn more about its own operation. The board's dynamics begin to change. (Charan, p 1998)

Induction

As even established directors have a limited amount of contact with the organisation, it can take a director some time to get to know the organisation and the requisites of good governance. Good induction will enable new directors to learn their new role quickly. A good induction programme will include:

- o formal introductions to other board members and relevant stakeholders
- o allowance for appropriate cultural protocols
- o clear information paths for key documents - increasingly IT solutions will improve document management systems
- o a briefing by the CE
- o a tour of relevant facilities to familiarise the new director with the organisation
- o the assignment of a fellow director as a mentor (Boardworks International, 2002).

Context and environment

Rather than an internal relationship with staff, the board's primary relationships are external. (Carver & Carver 2002)

The board has a role to:

- o make sure managers are listening to owners/shareholders, but are not coerced by them

- o insist the CE has a comprehensive plan for communicating with owners/shareholders

- o let owners know that the board is working well

- o balance long term and short term owner shareholder interests with the interests of other stakeholders (Charan,1998).

Charan (1988:18) argues the best boards add competitive value. This includes "identifying blind spots and overlooked opportunities, offer multiple perspectives and insights into the external environment, and provide an objective view of the industry landscape and views on people".

Boards that have a hands-off alternative approach to strategy expose their organisations to greater risk of failure. According to Pound (2000:79) "most corporate failures result from a few flawed decisions rather than outright incompetence. That model plays into the weaknesses of human behaviour by allowing mistakes to go uncorrected until they become catastrophes".

"Strategy is about the delivery of the enterprise's purpose" (Garratt, 1997:85).

- o There is a trend towards wider consideration of the organisation's stakeholders (Bruce, 2000; Robbins, et al 2000). Stakeholder groups include employees, suppliers, customers, shareholders and the wider community. Robbins (page 176) states the stakeholder focus of an organisation extends outwards from the owners and management to employees, then to constituents in the specific environment, and then to broader society as the organisation becomes more socially responsible. Some see a conflict between a stakeholder focus and classical responsibilities of the Board. Distributing the organisation's funds is seen as an abuse of fiduciary duty. [see the New Zealand Business Roundtable's website and the New Zealand Business Council for Sustainable Development's website for contrasting perspectives]

The Carvers (2002) stress the primacy of the owners over other stakeholders. In not-for- profit organisations some tension exists between the acknowledgement of community ownership and the fact that the community itself is populated by key stakeholders.

The board makes all reasonable efforts to consult and report to stakeholders (Nahkies, 1999) Indeed the board should seek input from anyone, staff, owners, or experts to increase the board's wisdom (Carver & Carver, 2001).

"The onus is on the CE to give the board a clear picture of the business and its external context. The quality, quantity, format, and frequency of information must be

designed to help directors cut through the tonnage"…"Give directors opportunities to gather "soft" data through frequent contact with people below the CE's direct reports. (Charan, 1998:128).

Owner and stakeholder relations

Boards are mandated by the owners to be accountable that the organisation works. (Carver & Carver, 2001) The model applies to both profit and not-for-profit organisations. With commercial boards ownership is normally clear. In the case of public companies, the shareholders own the company. The Carver's identify the community as owners of community organisations such as hospitals or family service agencies. The board is the on-site voice of the owner.

Boards following the Carver model establish systematic linkages between the organisation and the ownership (Carver & Carver, 2001). To deliver on behalf of the owners, the board has to be clear about the owner's expectations.

In public companies shareholders have become more vocal about their rights. In the U.S. the inclusion of more independent directors has assured shareholders that their interests have greater priority. John Reed, CE and Chairman of Citicorp states " In the old days, boards felt they were part of the company and owed allegiance to the CEO. Now boards feel that they represent the stockholders and are more sensitive to their concerns" (Charan,1998:130).

Organisations can tend to be introspective. Many organisational members may have operated in their organisation or its parent industry for many years. With the advent of increasing competition for both goods and services, organisations must be far more external in their focus. A parallel development has been the blurring of organisational boundaries as partnerships and alliances are formed.

Non-executive board members can add value to the organisations by bringing their knowledge of the environment and context to the board table.

Part two: Evaluating Board Performance.

Given that boards have an influential role in the efficacy of organisations, it is important that they have the will and the means to evaluate their performance.

Design principles for developing evaluation tools

Much is written on standards that boards should achieve or tasks they must execute. Less is written on evaluation processes. When designing evaluation processes a fresh look might be valuable given the following perspective of board performance.

> Public consensus is that the science of board management falls well behind the science of management and HR. Board members are rarely well trained, often have one-sided support from the organization, are trapped by politics and personalities, and other work – other jobs to be done.
>
> Performance Management Incorporated (nd)

Over forty years ago Donald Kirkpatrick identified four levels of evaluation of training (ASTD, 1996). Level one evaluation gauges the reactions of participants to the training programme. For example, "What suggestions do you have for improvement?" The next level includes assessments to evaluate what participants have learned. Level one and two evaluation can discover how useful the training has been to the participant, but gives no information about how useful the training has been to the workplace. Level three evaluation measures how new skills and knowledge have been transferred into the workplace. Kilpatrick's highest level measures the financial impact of training. The result may be expressed as a return on investment (ROI). Thus the total cost of the training programme is compared to the value of benefits.

If we apply this concept to evaluation of governance we can anticipate that evaluation may only approximate level one evaluation. Parallels for levels of evaluation of governance might be:

1. **level one**: The board conducts self-appraisal.

2. **level two**: Third parties are involved in the evaluation and seek to determine the levels at which the board is operating. Benchmarks might be applied.

3. **level three:** There is no direct parallel here, but perhaps we might ask how the board influences the organisation.

4. **level four**: Surely the ideal is to find out how the board adds value to the organisation. I suspect many boards don't add much value at all but exist to satisfy some statute.

Processes of performance management from wider organisational provide a more generic approach to board evaluation.

Before establishing an evaluation process it is useful to consider design principles.

1. A range of perspectives is sought.

2. It is hard to know what you don't know

3. Data will be more useful if it is collected longitudinally.

4. Use both quantitative and qualitative data.

5. Boards that are seen to be using evaluation processes will be more respected.

1. A range of perspectives is sought.

The principal of 360^0 feedback is now widely accepted. In essence, in an hierarchical context feedback is sought from above, beside and below. In a governance context we can arbitrarily identify that potential sources are the business owners, various stakeholders, and staff. Individuals with unique perspectives such as the minute secretary should not be forgotten.

People, or groups of people, that might have useful perspectives include:

- o board members, including the chair and CE
- o the secretary or minutes secretary
- o the owners or owner's representatives
- o stakeholders including those that supply representative members
- o staff and especially the CE's direct reports
- o customers or customer representatives
- o industry or sector peers

2. It is hard to know what you don't know

The Johari Window alerts us that we don't have perfect knowledge, and indeed others may know aspects of ourselves we don't know ourselves (Luft, 1970).

feedback ➡

Quadrant one. behaviour known to self and others	**Quadrant two** blind area known to others but not to self
Quadrant three hidden area – what we know about ourselves that we don't reveal to others	**Quadrant four** unknown to self or others
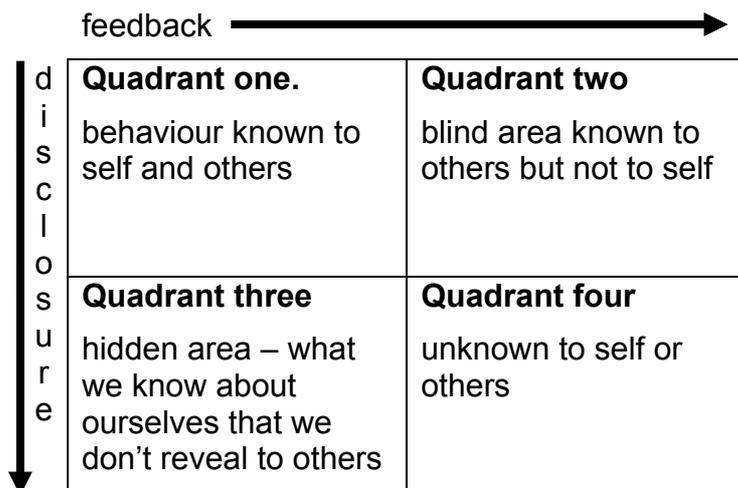
(disclosure ⬇)

figure 1 The Johari Window

The above figure identifies that we can benefit from the perspectives of others and that the processes to facilitate learning are feedback and disclosure.

The concept of groupthink, described by Janis in 1972 (Gist & Woodall, 1988) identifies that thinking in groups tends towards homogeneity. Senge (1990; 9)

echoes this thought – "How can a team of committed managers with individual IQs above 120 have a collective IQ of 63?"

Other concepts question our ability to objectively evaluate anything. For example Argyris's ladder of inference identifies role bias, and other perceptual factors play in influencing our thinking (Senge, Ross, Smith, Roberts & Kleiner, 1994).

I take
actions based on
my beliefs

I adopt
beliefs about the
world

I draw
Conclusions

I make assumptions
based on the
meanings I added

I add meanings
(cultural & personal)

I select data from what I
observe

Observable data & experiences
(as a video recorder might capture it)

The reflexive loop
(our beliefs affect
what data we
select next
time.
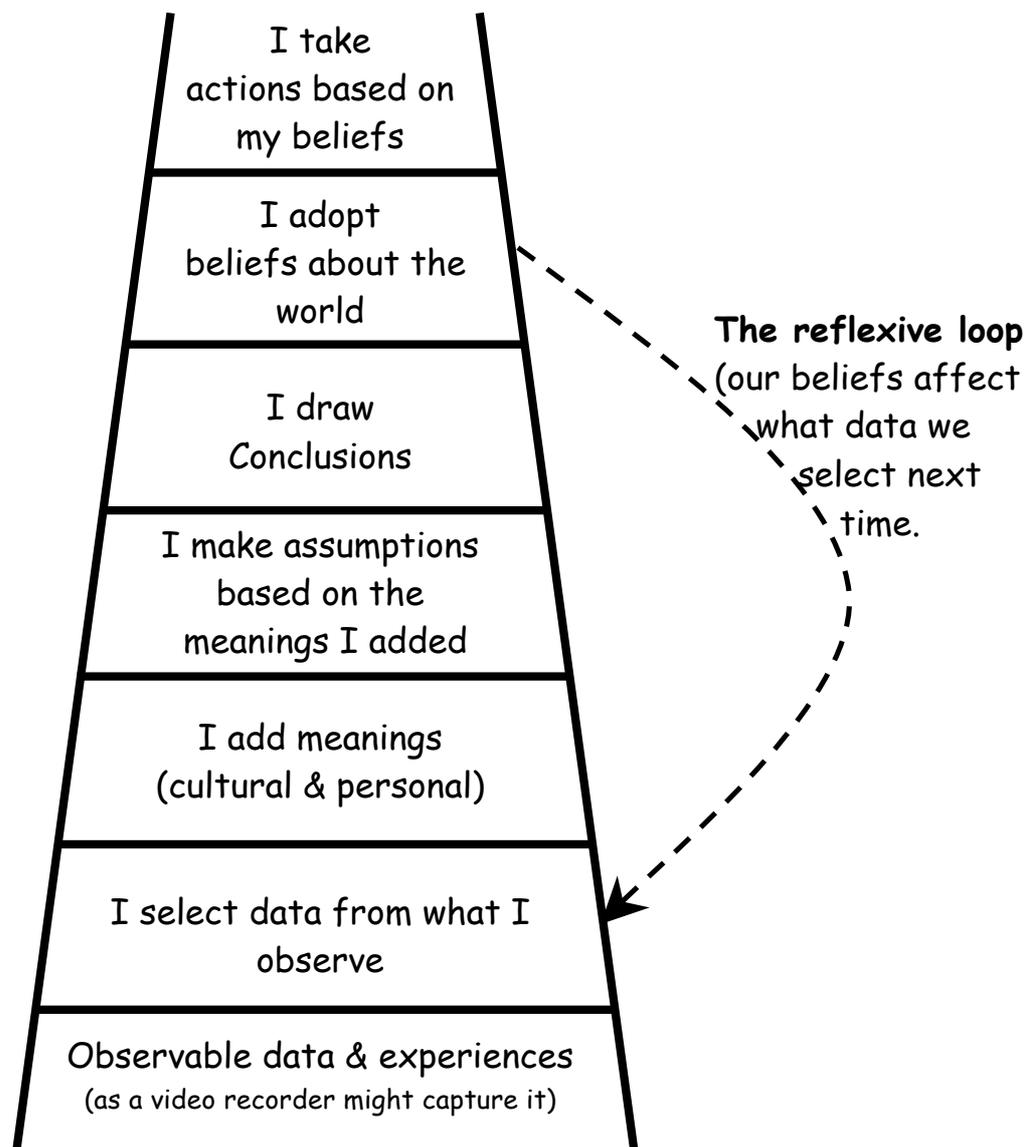
figure 2. The Ladder of Inference

3. Data will be more useful if it is collected longitudinally.

One off surveys have some use. It is more useful to collect data when it is repeated over a series of year (Swain, Catlin, & Beaudet, 1999). Annual reports often provide the past year's performance data and some comparative performances from earlier years. It is useful to adopt the same practice for board performance.

4. Use both quantitative and qualitative data.

Often surveys use Likert scales to reduce perceptions down to numerical measures that can be easily processed data. This method is useful for processing large numbers of respondents.

In the social sciences there is an increasing recognition of the importance of qualitative data (see part three for more detail).

For example, a Likert survey that seeks participant's perceptions of meeting processes will be useful. An observation of a meeting will compliment and possibly draw out richer data.

5. Boards that are seen to be using evaluation processes will be more respected.

Boards are continuously evaluating organisational performance. Publicity about board evaluations will show that those that monitor the organisation are prepared to be scrutinised.

Part three: Method

The initial research plan was:

1. Conduct a literature review.
2. Design and conduct an online survey.
3. Identify greatest needs for governance development in Northland.
4. Recommend governance development strategies.

The design stage in effect turned into an action learning process. My initial survey had over eighty items. A colleague commented that surveys with over thirty items are less reliable as respondents tire and their responses become more random. I have not validated this through research, but parallel research in qualitative data have led me to modifying the survey approach and adopting the semi-structured interview as a research method.

In unstructured or semi-structured interviews, the interviewer seeks to give the interviewee the space to express themselves to surface rich data (Zikmund, 1997). Semi-structured interviewing sacrifices uniformity for the potential richness of data. The interview is a learning process. Earlier questions in the interview open up space for new questions born of dialogue. Earlier interviews inform and refine later interviews (Bryman, 2004).

> Ethno-researchers are intent on discovering and communicating an organizational reality as it is experienced by the inhabitants of that reality (Stablein, 1996: 518).

I began with the vision of a survey delivered through the Internet. The survey would be filled in respondents on-line and be analysed effortlessly by well-designed reports. I made considerable progress with the web pages. My disillusionment with the quantitative approach led me to abandon this method. I retained the survey but reduced the items to 4 groups totalling 26 items. The survey was conducted face-to-face. The respondents had an opportunity to discuss the items raised in each group. Interview length ranged from thirty minutes to three hours.

In an early interview there was confirmation that this approach was beneficial. The respondents comments revealed the interdependence of items. In this case, the nature of the constitution heavily influenced the behaviour of board members. Without this information, survey analysis might erroneously infer low board member competence. The interview dialogue revealed contextual issues that made the likert response to some questions invalid.

After each interview, I thematically analysed respondents comments.

The modified research plan became:

1. Conduct a literature review.
2. Design and conduct a survey and interview.
3. Identify greatest needs for governance development in Northland (survey statistical analysis and thematic analysis of qualitative interviews).
4. Recommend governance development strategies.

Participants

I selected participants known to me. This reduces issues of trust and rapport building. As the method evolved, I scaled back anticipated numbers of respondents. The participants were generally of high calibre and many had significant experience in governance.

The survey

The survey is on the following pages. The information and consent form is appended. Eight people were interviewed. As some had more than one governance role, two surveys were completed giving a total of eleven surveys. This was useful for the process as they were able to compare and contrast two different roles. It would be useful to have a larger sample. In reality, this project has grown and evolved and time constraints have prompted me to draw a line at eleven interviews.

Confidentiality

When interviews started my thinking had changed about the need to report on organisational type and participant's role. This seemed less relevant as the interviews proceeded. There is nothing in this report to identify individuals or organisations. Further research projects that evolve from this one can seek the board's permission to access this data as necessary.

Governance Development Survey

Instructions

This survey has 4 sections of 5 to 7 questions.

Simply circle the response that best describes your board's stage of development.

Role (Circle one)

Board member   Chief Executive   Chair   Secretary

Section 1: Tasks

1	We focus on "ends" and leave the "means" to the Chief Executive (CE).

not yet	sometimes	usually	always

2	We set clear organisational performance expectations and monitor these through the CE.

not yet	sometimes	usually	always

3	We guide strategy through our knowledge of the external environment rather than develop specific strategies.

not yet	sometimes	usually	always

4	We have effective systems to ensure financial sustainability.

not yet	sometimes	usually	always

5	We comply with statutory requirements and meet auditing standards.

not yet	sometimes	usually	always

6	We manage risk effectively.

not yet	sometimes	usually	always

7	Overall, our constitution (charter), structure, and relevant policies and procedures are well designed and maintained.

not yet	sometimes	usually	always

Comments:

Section 2: Processes

1 We add real value to the organisation.

not yet	sometimes	usually	always

2 Our time management is effective – we get enough time to work effectively on important issues.

not yet	sometimes	usually	always

3 Our communication is effective – we have effective dialogue in our meetings.

not yet	sometimes	usually	always

4 Our dialogue generates new insights – adding significant value to the organisation.

not yet	sometimes	usually	always

5 The board has an effective relationship with the CE.

not yet	sometimes	usually	always

6 We skilfully develop and maintain effective relationships between ourselves and key stakeholders.

not yet	sometimes	usually	always

7 We have effective means to gather accurate information on the organisation and don't depend solely on the executive.

not yet	sometimes	usually	always

Comments:

Section 3: Capacity

1	We are clear about our strengths and weaknesses and have a development plan both for the board as a whole and board members.

no	we've started	getting there	yes

2	Overall individual board members ask intelligent and penetrating questions.

not yet	sometimes	usually	always

3	The composition of our board, in terms of ethnicity and gender, reflect the community we operate in.

no	we've started	getting there	yes

4	We have a succession plan, especially for the CE and Chair.

no	we've started	getting there	yes

5	Overall, Individual board members model organisational values.

not yet	sometimes	usually	always

6	Overall, individual board members have sound knowledge of the organisation, its business and marketplace.

not yet	sometimes	usually	always

7	Overall individual board members have conceptual and analytical skills in finance and key strategic areas.

not yet	sometimes	usually	always

Comments:

Section 4: Context

1	All board members are well networked into the community.			
	not yet	sometimes	usually	always

2	Board discussions and actions are centred around the best interests of the organisations owners.			
	not yet	sometimes	usually	always

3	We have effective communication channels with the owner/s and key stakeholders.			
	not yet	sometimes	usually	always

4	The board maintains a strong future focus.			
	not yet	sometimes	usually	always

5	The board is a learning board and promotes organisational learning.			
	not yet	sometimes	usually	always

Comments:

Part four: Findings and Discussion

The findings below are based on surveys and interview of eight different boards. Board is used as a generic term. Six of the eight are from a range of public service organisations with the remainder being small privately owned organisations.

This project homogenises the data based on the assumption that the aspects of governance focussed on are universal.

Relevance of the model

The literature review exposed a wide range of governance factors that can be evaluated for developmental purposes. Chunking these into task, process, capacity, and context appears useful. I suspected that issues of capacity have not had the focus they deserve and this suspicion has been justified.

The average scores for these four dimensions are:

Task: 2.23

Process: 2.0
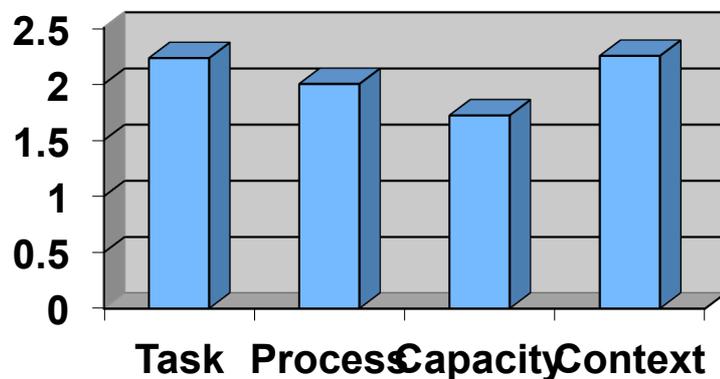
Capacity: 1.72

Context: 2.25

figure 3: Average scores for the four dimensions (scale range 0 to 3)

The data-set for capacity included nine zeros, often labelled as "not yet". The other three data-sets included only one each.

The two tables below identify the top five and bottom five aspects. Note that three aspects of "task" scored highly and the three lowest scores were for "capacity".

Rank	Section	Item	Score
1	Task (5)	We comply with statutory requirements and meet auditing standards.	2.8
2	Task (4)	We have effective systems to ensure financial sustainability.	2.8
3	Process (5)	The board has an effective relationship with the CE.	2.5
4	Context (2)	Board discussions and actions are centred around the best interests of the organisations owners.	2.5
5	Task (2)	We set clear organisational performance expectations and monitor these through the CE.	2.4

table 1: Top 5 responses

Rank	Section	Item	Score
1	Capacity (4)	We have a succession plan, especially for the CE and Chair.	1.5
2	Capacity (3)	The composition of our board, in terms of ethnicity and gender, reflect the community we operate in.	1.5
3	Capacity (7)	Overall individual board members have conceptual and analytical skills in finance and key strategic areas.	1.6
4	Process(2)	Our time management is effective – we get enough time to work effectively on important issues.	1.6
5	Task (3)	We guide strategy through our knowledge of the external environment rather than develop specific strategies.	1.6

table 2: Bottom 5 responses

Themes emerging from the four dimensions follow.

Tasks

The maxim "you get what you measure" may help to explain why generally aspects of task rated highly. The top two aspects, about compliance, audit, and financial viability receive possibly the most attention in governance processes.

Differences in board performance in this dimension can be attributed more to varying levels of maturity than generic deficiencies across the region.

One aspect of the task dimension, strategy, appeared in the bottom five. In part this might because the question was not worded well. It caused more confusion than any of the other questions. The intent of the question was that the board dealt with strategy at a global/environmental level, rather than get involved in strategy

development. Strongly performing boards felt the need to get involved in the specifics of strategy. This factor seems to be situational.

The constitution of the board can limit member effectiveness.
One respondent perceived the board's constitution was too rigid and over-emphasised the primacy of the owner. In publicly owned organisations, the owner is the Crown, but is ultimately the taxpayers. Members elected by taxpayers thus experience a dilemma. In this context, there is potential for conflict between representational roles and stewardship.

As discussed below the inherent nature of boards more in the political realm provides a context for conflict.

Risk
Risk management has gained more prominence as the environment becomes more complex. Most participants felt that despite this their risk management was effective.

Processes

The process dimension ranked third. It seems that boards assume competence in process factors. Competence in process seems to be developed by the seat of the pants. It would seem that a development focus on process could be productive for many boards. Through effective dialogue, for example, boards can generate knowledge and value for the organisation.

Board dialogue
As boards mature in their social processes ideally individuals have freedom to express opinions and to achieve constructive dialogue that transcends individual point-scoring and argument. Several interviewees noted this maturation process. In one board, there was a perception that a number of members felt unsafe to contribute to dialogue. Over time their confidence grew collectively creating a more open communication climate.

There is a need to find creative ways to address the dilemma of balancing free speech and achieving the meeting agenda. Respondents commented that the meeting agenda is often full thus creating pressure on the chair to move quickly through agenda items. When the time pressure is too great boards can merely rubber stamp decisions. If too much time is spent in dialogue the board's ability to complete key tasks is compromised. .

Professionalism in communication.
An important quality for board members is to be able to communicate contentious issues directly and honestly with others and to maintain a respectful relationship. When this quality seemed to be present in respondents, they often expressed *positive regard* for people generally in the manner of McGregor's (1960) theory Y.

Board unity
Task efficiency is compromised by board members with personal agendas. Boards vary in their degree of unity achieved. Some boards, by their nature tend to be more political. One respondent commented that "personal agendas" can create unproductive conflict. Alternately it was also noted that those with personal agendas over time can become more in tune with the overall purpose of the board reminiscent of the process of socialisation (Schein 1990).

Elected boards can follow the current party political approach modelled by parliament – either by forming formal parties or alliances. One respondent saw this as a limit to effectiveness. Lurching from one power bloc to another can be counterproductive as illustrated by the recent Auckland Mayoral election. Disregarding the relevant merits of the current and former mayor's policies, planning will be hampered by radical changes, especially when the planning cycle is shorter than the electoral cycle.

Chair's role
Effective chairing is critical. One board improved their processes as discussion became more focussed and on task. Consequently people felt more enfranchised.

Maturation and cycles
Several respondents served on long-established boards. Some have mature systems, for example, operating through standing orders is the norm. A respondent from a company board spoke of how the five-year-old board was set up with effective systems. It is noteworthy that this company scored well on capacity. Conversely a longer established board still did not have formal performance expectations for the CE.

In many cases, board performance dips at the beginning of a cycle when a number of new members join the board. Even for mature boards, cycles have an impact. Elected boards have the challenge of an influx of new members. The degree of difficulty is related to the proportion of new members.

This is a clear issue for boards. The challenge for boards is to develop strategies to minimise the negative impact of the influx of new members, given it is a predictable event.

Organisational intelligence
Relying solely on the CE for intelligence about the organisation is risky. One board meets regularly with the executive team. Observation of communication between executive team members may indicate underlying tensions. Board members need to be skilful both in communication and observation of others.

Capacity

A focus on issues of capacity provide great potential for board development. A dual focus, on both individual and board capacity is required.

Note that the three bottom responses came from this dimension – issues of succession, diversity, and individual capacity.

Board member character and values
In the post-Enron era, there is a sharper focus on ethics and the requisites of board effectiveness. Regulatory measures will help to reduce the impact of director self-interest. Some commentators (Colvin, 2002; Sonnenfeld, 2004) note the importance of the character and values of directors.

An interview with one respondent bought to mind Richard Paul's (1993) *Intellectual and Moral Virtues.* This respondent continues to be very successful in governance roles and seemed to manifest some of the qualities detailed by Richard Paul. Paul's

virtues would make a worthy inclusion in any evaluation or development programme. They are:

- intellectual and moral humility

- intellectual and moral courage

- intellectual and moral empathy

- intellectual good faith and moral integrity

- intellectual and moral perseverance

- intellectual and moral fair-mindedness

- faith in reason

These virtues appear to be a good resource for board development. More detail follows in appendix three. Another useful resource is Covey[2] (1989, 1990).

One respondent was very clear that the board had a leadership role in moving the organisation towards greater openness and customer focus. This transition is significant and profound with expectations that the organisation will become less "top down" and create more responsive and inclusive culture. While opportunities to communicate directly with staff were limited, modelling of the desired organisational culture was regarded as important.

Succession
Effective succession creates continuity for boards. Elected boards, such as school Boards of Trustees and District Councils face this challenge with a three year election cycle. The problem is exacerbated for schools Boards of Trustees as there is high turnover. One board handled this very well. The chair gave early notice of his intention to resign half way through his next three year term. The board was able to groom a replacement.

The deputy chair is not necessarily regarded as the heir apparent to the role of chair.

While succession through internal appointments might be useful, one respondent felt that CE and other appointment should be advertised widely to "cast the net" for new talent.

Succession can be effected through two means, systems and culture. Succession systems are consciously implemented whereas cultural succession may be less apparent. A culture that will support succession features a strong sense of unity, a sense of confidence in the development and maturation of the board, and a focus on and promotion of professional development.

One board's interest in sucession reached beyond the CE. They monitor key senior positions as a succession and risk strategy. Previous experience taught the board that loss of a number of key people in one event is disruptive. This is exacerbated when the talent pool for replacements is not great.

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[2] Covey's book might be discounted as popular press, even from the personal development genre. Note that Forbes rated *The 7 Habits of Highly Effective People* 10th of the 20 most influential management books of the last 20 years
http://www.forbes.com/work/2002/09/30/0930booksintro_2.html .

Board development

Where respondents had served for more than one term on a board, they were aware of the impact of the electoral/appointment cycle on board development. Often senior members were aware of the developmental dynamics, even if these were not widely acknowledged in formal board dialogue.

Keeping in touch with skilled and reputable external experts increases the range and depth of skills the board can call on. Smaller company boards that typically consist of executive directors can co-opt a non-executive director with specific skills. One respondent reported co-opting a non-executive director to add conflict resolution skills. When the co-opted term ended, the skill sets had been learned by the executive directors and used effectively.

Some boards used workshops for board development. Another had an annual retreat. For one board, workshops gave opportunities for dialogue that the more formal "standing orders" protocol didn't permit.

Board member skills

Board members are typically middle age upwards. Some have not kept current with information technology skills. This is an impediment to efficient communication.

Board Composition

Some respondents did not rate gender and ethnicity balance as an issue of concern. The nature of some boards, for example family owned companies precluded diversity.

Context and Environment

Issues of context scored marginally higher than tasks. This dimension elicited little comment from participants. Possibly this was due to it position at the end of the survey.

One aspect worthy of closer consideration is the learning organization. My perception is that few participants understood the relevance and importance of the concept of the learning organization. Covey's (2004) new book *The Eighth Habit* identifies the crucial transition that must be made from an industrial age paradigm to an information age paradigm. The learning organization is fundamental to information age organizations.

Exemplary Boards

This research unearthed an exemplary board. To conform with my confidentiality protocol, it will remain unidentified. However it is a worthy subject for further research.

This board had potential representative/owner conflict, but seems to generate effective dialogue. It executes its key tasks effectively as demonstrated partly by excellent financial performance. It also pursues some of the aspects of governance that are more subtle in their contribution to board effectiveness. They seem to have

effective succession and board development practices.   The board was mindful of modelling organisational values.

Limitations of this research

There are limitations to this research that must be noted.

- The sample base was very wide. This was a deliberate strategy, but results in comparing some quite diverse boards.

- The data was elicited from board members. This was a one dimensional focus. There was no triangulation with evidence of board effectiveness. Distortions such as attribution error are inevitable. However determining a board's contribution to organisational performance is very complex and beyond the scope of this project.

- The sample of eleven interviews was small.

Outcomes

The survey developed here is a useful development tool for boards. It has a balanced scope while being brief enough not to be too burdensome. It can be used among a suite of tools.

The literature review spawned a prescription for a 600 level (year two) degree paper *Governance and Trusteeship.*

Further research

Several areas of potential research follow from the initial work done here:

- Board members are often people with a wealth of experience spanning decades. It would be interesting to research their perceptions of their individual development needs. To what extent is there an assumption that they are a "finished product" rather than have an orientation to lifelong learning?

- The board unearthed as an exemplary board is worthy of further study. A focused study triangulating board and organizational effectiveness will strengthen our understanding of best practice and provide a model and resource for board development in Northland.

- Specific issues such as succession require further investigation.

- Applied research using the survey as a developmental tool.

Part five: Conclusion and Recommendations

In an information age context, and mindful of the increasing complexity of the organisational context, the requisites of effective governance need greater attention. Northland is no less exposed to the factors of complexity and epochal change than more populous regions, both here and abroad.

This project examined aspects of best practice of governance. To facilitate a developmental focus, these factors were sorted into four distinct dimensions, task, process, capacity, and context. Generally boards were found to be good heart in relation to the execution of key tasks and their knowledge of, and connection with their organisational context.

The dimensions of process and capacity offer opportunities for board development. Boards will profit from focussing on issues of succession, individual and board capacity, diversity and time management. It is also desirable that boards know the importance of the learning organisation as a developmental strategy.

Recommendations

These recommendations target boards and centre on board development.

1. ***Develop an annual professional development plan for the board and for board members.*** This can be implemented initially through a project group or short-term sub-committee.

2. ***Use a range of tools to evaluate board performance.*** The design evaluation processes should follow a careful self-assessment of the board's needs. Evaluation processes must skilfully balance external and internal perspectives. External input can be used for a range of activities such as observing meeting processes. Ideally the board will drive the process.

3. ***Develop a succession plan, especially for the CE and chair.*** Be mindful that succession plans can use both a systems and cultural approach.

4. ***Assess the impact of the maturation cycle of the board.*** Assess how election and appointment processes/cycles create disruption to the board's development. How can this be minimised to take full advantage of the "new blood?"

5. ***Include a professional development component on the "learning organisation".*** Organisations will become increasingly irrelevant unless they are able to learn from the community they operate in. Learning organisation practices will foster profound change in organisations. Boards must know these dynamics.

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Appendix one: Information and Consent Form

Governance Development in Northland

INFORMATION SHEET

Researchers Introduction

There is growing awareness of the contribution of good governance to the success of organisations. This survey seeks to identify what respondents perceive to be the strengths and weaknesses of their governing boards. Survey results will be used to guide the development of a seminar or series of seminars for Northland Board members.

The research team is:

- **Peter Bruce.** Peter is a tutor for the Business Management programme at Northland Polytechnic. Contact Peter at 09 459 8687 (day), 09 437 7927 (evening), or email pbruce@northland.ac.nz
- Peter's mentors for this project are Dr. Albert van Aardt and Pamela Peters.

Participant Recruitment

You have been selected for this project because I know you personally, or you have been recommended to me. I have sought to identify people from a range of diverse governance roles in Northland.

If you are uncomfortable with any questions, you don't need to answer and you may end the interview when you wish.

Project Procedures

The interview is based on a survey. You will complete the survey first. We will then return to each section and discuss relevant issues. Your comments will be summarised in writing. You will have an opportunity to ensure that your thoughts are accurately reflected in the comments summary.

Your name will not appear in the research report. A pseudonym may be used. If the uniqueness of your situation makes you easy to identify, we will take steps to protect your identity.

Before our report is published you will be emailed a copy for your perusal. We have two reasons for this. First, we want you to be comfortable with what we have written, and second, you may have been inspired by further ideas that you want to share with us.

The interview will be held at a mutually agreed venue at a mutually agreed time.

Your Rights

You are under no obligation to accept this invitation.   If you decide to participate, you have the right to:

- decline to answer any particular question

- withdraw from the study

- ask any questions about the study at any time during participation

- provide information on the understanding that your name will not be used unless you give permission to the researcher

- be given access to a summary of the project findings when it is concluded.

Statement of Consent:

I have read the information sheet. My questions have been answered to my satisfaction. I consent to participate in the study. I consent to the taping of the interview.

_____   _____

Signature of Study Participant   **Date**

Appendix two: Summary of Survey Results

Governance Development Survey

Section 1: Tasks

	1	2	3	4	5	6	7	8	9	10	11	Total	Average	
1	1	2	1	3	3	2	3	2	0	3	2	22	2.0	
2	2	1.5	3	3	3	3	3	3	2	3	0	26.5	2.4	
3	1	1	1	1	2	1	3	2	1	3	2	18	1.6	
4	3	1	3	3	3	3	3	3	1.5	3	1.5	28	2.5	
5	3	2	3	3	3	3	3	3	2	3	3	31	2.8	
6	2	1.5	3	1	2.5	2	2	3	2	3	2	24	2.2	
7	2	1.5	3	0	3	3	2	3	2	3	0	22.5	2.0	2.23
Average	2.0	1.5	2.4	2.0	2.8	2.4	2.7	2.7	1.5	3.0	1.5			2.23

Section 2: Processes

	1	2	3	4	5	6	7	8	9	10	11	Total	Average	
1	2	1	3	1	2.5	2	2	3	2	3	2	23.5	2.1	
2	2	1	2	1	2	2	3	2	1	2	0	18	1.6	
3	2		2	2	3	2	3	2	2	2.5	1	21.5	2.2	
4	1	1	2	1	2	2	2	2	3	2	1	19	1.7	
5	2	1	2	3	3	2	3	3	3	3	3	28	2.5	
6	1	1	2	2	2	2	1	3	3	2	1	20	1.8	
7	2	1	2	3	3	2	1	2	2	3	1	22	2.0	2.00
Average	1.7	1.0	2.1	1.9	2.5	2.0	2.1	2.4	2.3	2.5	1.3			2.00

Section 3: Capacity

	1	2	3	4	5	6	7	8	9	10	11	Total	Average	
1	1	1	2	2	1.5	1	2	2	3	3	0	18.5	1.7	
2	1	1	2	2	2	2	2	3	3	2	2	22	2.0	
3	0	3	3	1	3	3	0	0	1	3	0	17	1.5	
4	2		2	1	2.5	0	1	1	2	3	0	14.5	1.5	
5	1	1	3	1	2	2	2	2	2	2	3	21	1.9	
6	2	0	2	1	2.5	2	2	2	3	2.5	1.5	20.5	1.9	
7	1	0	2	0	3	1	2	2	3	1.5	2	17.5	1.6	1.72
Average	1.1	1.0	2.3	1.1	2.4	1.6	1.6	1.7	2.4	2.4	1.2			1.72

Section 4: Context

	1	2	3	4	5	6	7	8	9	10	11	Total	Average	
1	2	2	2	2	3	2	3	2	2	2	1.5	23.5	2.1	
2	2	2	2	3	3	3	1	2	3	3	3	27	2.5	
3	2	1	2	2	3	2	3	3	3	3	1	25	2.3	
4	2	2	3	2	3	2	3	3	2	3	1.5	26.5	2.4	
5	2	1	3	2	3	2	2	2	2	3	0	22	2.0	2.25
Average	2.0	1.6	2.4	2.2	3.0	2.2	2.4	2.4	2.4	2.8	1.4			2.25

Appendix three: Intellectual and Moral Virtues

Intellectual and moral virtues

from *Critical Thinking,* Richard Paul (1993, p.316 & 323)

Our basic ways of knowing are inseparable from our basic ways of being. How we think reflects who we are. Intellectual and moral virtues or disabilities are intimately interconnected. To cultivate the kind of intellectual independence implied in the concept of strong sense critical thinking, we must recognise the need to foster intellectual (epistemological) humility, courage, integrity, perseverance, empathy, and fair-mindedness. A brief gloss on each will suggest how to translate these concepts into concrete examples. Intellectual humility will be my only extended illustration. I will leave to the reader's imagination what sorts of concrete examples could be marshalled in amplifying the other intellectual virtues.

Intellectual and moral humility: Having a consciousness of the limits of one's knowledge and moral knowledge, including a sensitivity to circumstances in which one's native egocentrism is likely to function self-deceptively; sensitivity to bias, prejudice, and limitations of one's viewpoint. Intellectual and moral humility depends on recognising that one should not claim more than one actually knows. It does not imply spinelessness or submissiveness. It implies the lack of intellectual and moral pretentiousness, boastfulness, or conceit, combined with insight into the logical foundations, or lack of such foundations, of one's beliefs.

The anecdote at the beginning of chapter 2 of the physics teacher is an example of what I call intellectual humility and, like all intellectual humility, it arises from insight into the nature of knowing. It is reminiscent of the ancient Greek insight that Socrates was the wisest of the Greeks because only he knew how little he really understood. Socrates developed this insight as a result of extensive, in-depth questioning of the knowledge claims of others. He had to think his way to this insight.

If this insight and this humility is part of our goal, then most textbooks and curricula require extensive modification, for typically they discourage rather than encourage it. The extent and nature of 'coverage' for most grade levels and subjects implies that bits and pieces of knowledge are easily attained, without any significant consideration of the basis for the knowledge claimed in the text or by the teacher. The speed with which content is covered contradicts the notion that students must think in an extended way about content before giving assent to what is claimed. Most teaching and most texts are, in this sense, epistemologically unrealistic and hence foster intellectual arrogance in students, particularly in those with retentive memories who can repeat back what they have heard or read. *Pretending* to know is encouraged. Much standardised testing validates this pretence.

This led Alan Schoenfeld, for example, to conclude that "most instruction in mathematics is, in a very real sense, deceptive and possibly fraudulent".

………..(examples deleted – PB)

This approach to learning in math is paralleled in all other subjects. Most teachers got through their college classes mainly by "learning the standard textbook answers"

and were neither given an opportunity nor encouraged to determine whether what the text or the professor said was "justified by their own thinking". To move towards intellectual humility most teachers need to question most of what they learned as the teacher above did, but such question questioning would require intellectual courage perseverance and confidence in their own capacity to reason and understand subject matter through their own thought. Most teachers have not done the kind of analytic thinking necessary for gaining such perspective.

I would generalise as follows: just as the development of intellectual humility is an essential goal of a critical thinking instruction so is the development of the intellectual courage, integrity, empathy, perseverance, fairmindedness and confidence in reason. Furthermore each intellectual (and moral) virtue in turn is richly developed only in conjunction with the others. Before we approached this point directly however a brief characterisation of what I had in mind by each of these traits is in order.

Intellectual and moral courage: Having a consciousness of the need to face and fairly address ideas, morals, beliefs, or viewpoints toward which we have strong negative emotions and to which we had not given a serious hearing. This courage is connected with the recognition that ideas considered dangerous or absurd are sometimes rationally justified (in whole or in part) so that the conclusions and beliefs inculcated in us are sometimes false or misleading. To determine for ourselves which is which we must not passively and uncritically accept what we have "learned". Intellectual courage comes into play here because inevitably we will come to see some truth in some ideas considered dangerous and absurd and distortion or falsity in some ideas strongly held in our social group. We need courage to be true to the thinking in such circumstances. The penalty for non-conformity can be severe.

Intellectual and moral empathy: Having a consciousness of the need to imaginitively put oneself in the place of others in order to genuinely understand them, which requires the consciousness of our egocentric tendency to identify truth with our immediate perceptions or long-standing thought or belief. This trait correlates with the ability to reconstruct accurately the intellectual and moral viewpoints and reasoning of others and to reason from premises, assumptions, and ideas other than our own. This trait also correlates with the willingness to remember occasions when we were wrong in the past despite an intense conviction that we were right, and with the ability to imagine our being similarly deceived in a case-at-hand.

Intellectual good faith and moral integrity: Recognition of the need to be true to one's own thinking; to be consistent in the intellectual and moral standards one applies; to hold one's self to the same rigorous standards of evidence and proof to which one holds one's antagonists; to practice what one advocates for others; and to honestly admit discrepancies and inconsistencies in one's own thought and action.

Intellectual and moral perseverance: Willingness and consciousness of the need to pursue intellectual and moral insights and truths in spite of difficulties, obstacles, and frustrations; firm adherence to rational principles despite the irrational opposition of others; a sense of the need to struggle with confusion and unsettled questions over an extended period of time to achieve deeper understanding or insight.

Intellectual and moral fairmindedness: Willingness and consciousness of the need to treat all viewpoints alike, without reference to one's own feelings or vested interests, or the feelings or vested interests of one's friends, community, or nation; implies adherence to intellectual standards without reference to one's own advantage or the advantage of one's group.

Faith in Reason: Confidence that, in the long run, one's own higher interests and those of humankind at large will be best served by giving the freest play to reason, by encouraging people to come to their own conclusions by developing their own rational faculties; faith that, with proper encouragement and cultivation, people can learn to think for themselves, to form rational viewpoints, draw reasonable conclusions, think coherently and logically, persuade each other by reason and become reasonable persons, despite the deep seated obstacles in the native character of the human mind and in society as we know it.