

Board Assessment: Going beyond the «Tick-the-Box» Exercise



Prof. Dr. Peter Fankhauser

Peter Fankhauser's career is an inspiring journey. He restructured the International Business Unit in Kuoni AG; moved on to LTU Group Holding and successfully restructured this company as well. As CEO of the Thomas Cook Group from 2014 to 2019, he played a key role in shaping the transformation of the tourism industry. He prioritized customer service, put customer at the heart of everything and made Thomas Cook the most profitable travel provider in Germany and Scandinavia. Despite ups and downs, including the insolvency of Thomas Cook Group Ltd. in 2019, he demonstrated exceptional resilience. Today, Peter Fankhauser is CEO and owner of the consulting firm Manres AG, which advises executive and non-executive boards on assessments, cultural change, corporate development and leadership. Since 2017, Peter is an honorary professor at the University of St.Gallen.

1 Vision and Leadership

Effective board leadership transcends mere administrative tasks, combining both logical and psychological skills. As the chairperson, it's imperative to articulate a clear and compelling vision for the board that aligns with the organization's purpose. This vision should not be the exclusive domain of the CEO but a collaborative effort involving all board members, fostering a deep, shared commitment.

The development of this vision involves delineating governance structures and processes. This includes selecting board members with appropriate skills, defining information architecture, and establishing robust governance protocols.¹ Such logical structuring provides clear direction and is fundamental to effective board operations.

However, the psychological aspects of board leadership are equally critical. This includes fostering psychological safety, nurturing healthy relationships among board members, and encouraging open communication. Excelling in these areas not only clarifies the board's objectives but also magnifies its influence and impact.

Values are the cornerstone of this framework. Board members should exemplify the core values of the organization, acting as role models within and beyond the boardroom.

2 The Three Dimensions of Leadership

Leadership should address three pivotal dimensions²: the Logical («IT»), the Team («WE»), and the Individual («I»).

- **The Logical Dimension («IT»)** focuses on strategy, processes, structures, and organization, striving for clarity and excellence.
- **The Team Dimension («WE»)** encompasses trust, communication, psychological safety, collaboration, and empowerment.
- **The Individual Dimension («I»)** relates to personal attitude, self-leadership, resilience, and authenticity.

1 Four pillars of board effectiveness and performance (IMD, Prof. Dr. Didier Cassin).

2 The leadership Concept of Manres AG.

Effective leadership requires a holistic approach to these dimensions, enhancing the capability of any unit or board to achieve high performance and implement robust strategies.

2.1 Perception Among Executives

My experience working closely with both executive and supervisory boards reveals that supervisory boards often lack a favorable reputation among executives, perceived as a necessary burden rather than a supportive element. This perception stems from the dynamics of needing to justify actions and decisions to a body that holds significant sway over their professional fates.

This unfortunate view highlights a disconnect that could be bridged by adopting the leadership principles outlined above. Establishing a high-performing supervisory board that fosters trust and mutual respect with executives is crucial for effective governance and organizational success.

2.2 Some insights from recent data³

The effectiveness ratings for large company supervisory boards are disappointingly low: only 33% of executives rated their boards as good or excellent, while 52% deemed them fair, and 16% poor. Furthermore, a significant 60% of executives expressed distrust in their boards' ability to self-assess their performance effectively. When asked whether their boards overstepped their roles, 82% of executives felt that their boards respected boundaries, suggesting a preference for minimal board interference in day-to-day operations. However, deeper issues emerged concerning board functionality: only 33% of executives believed their boards asked probing questions, just 26% felt the boards possessed the right mix of skills and expertise, a mere 21% thought their boards dedicated enough time to their roles, and only 20% saw their boards as having sufficient diversity in terms of gender, race, and ethnicity. This paints a bleak picture, with the trend from 2021 to 2022 showing a negative shift, indicating worsening perceptions of board performance.

In my view, the primary issue is the lack of emphasis on developing a dynamic, high-performance board that effectively serves all stakeholders. How can we address this? It begins with a comprehensive assessment of board activities across all dimensions. This approach extends beyond traditional board evaluations that merely measure effectiveness. It includes a thorough examination of what I previously discussed regarding the three dimensions of leadership: the 'IT' (the tasks), the 'WE' (the team), and the 'I' (the individual). This should be treated as a genuine, holistic assessment, rather than a perfunctory review.

3 Elements of an Integral Board Assessment

In the standard board evaluation process, the initial focus typically centers on areas that are readily quantifiable, such as 'risk and audit'. The assessment then expands to cover critical board functions like leadership succession planning and compensation—commonly referred to as Nomination and Compensation—viewed as pivotal roles of a board. Additional aspects evaluated include strategy and innovation, stakeholder engagement, compliance, internal and external reporting, and sustainability. Increasingly, leadership and organizational culture also come under scrutiny. To obtain a comprehensive understanding and create an effective board effectiveness feedback report, various methods are utilized: board surveys, document inspections, and interviews with the Chairperson, board members, and the CEO, supplemented by observations of board meetings. If boards take these feedback reports seriously and commit to actionable improvements, these assessments become potent tools for enhancing board performance. Otherwise, they risk becoming mere checkbox exercises.

However, often missing from these evaluations is the crucial 'individual' dimension of leadership, noted as the 'I'.

3 PWC and The Conference Board, Board Effectiveness: a survey of the C-Suite, May 2023 and November 2021, 601 participants.

3.1 Challenges of a Chairperson

Unlike operational teams that work closely on a daily basis, boards convene on a scheduled basis, and the interaction time is limited. This dynamic is akin to a national football team, with the Chairperson playing the role of the coach. Board members, like star athletes from various clubs, bring their significant decision-making power and influence from their primary roles into the boardroom. The Chairperson's challenge is to maximize the output of these high-caliber individuals in the limited time available, similar to a CEO nurturing an executive team.

3.2 What Constitutes a High-Performance Team?

A high-performance board begins with an inspiring vision. It requires clear and efficient communication both internally among members and externally, providing clear direction and ensuring a unified voice. Diversity of opinion is vital; members must feel secure in expressing dissenting views within a framework of clear guidelines and responsibilities. The underlying attitude should be proactive, supportive, and inclusive. Achieving this is ambitious but can be highly rewarding. In the pursuit of such a team, the three dimensions of leadership are critical: 'IT' (structural and strategic elements), 'WE' (team dynamics), and 'I' (individual contributions). While the selection of CEOs often involves rigorous personality assessments to ensure cultural and leadership fit, such diligence is less common in board member selection, where the focus is usually on skillset and professional background. However, to build a truly high-performance team, soft factors must also be evaluated, as they significantly influence the team's culture.

3.3 Three Aspects of Resilience

From my perspective, the board bears the ultimate responsibility for ensuring that the company is resilient on multiple levels:

- **Corporate Resilience:** This involves the board's functionality, the effectiveness of checks and balances, and the integration of risk management and compliance into the organizational culture. The board must exemplify leadership in these areas.
- **Team Resilience:** This entails selecting the best candidates who fit the organizational culture and fostering them into a high-performance team across all management levels.
- **Individual Resilience:** Board members should maintain personal resilience through a holistic approach encompassing physical health, mental agility, emotional stability, and spiritual fulfillment.

4 My Recommendations

- **Define Desired Outcomes:** Clearly articulate the desired skillset, working methods, team dynamics, personalities, and cultural attributes for your board.
- **Conduct Thorough Diagnostics:** Implement a board evaluation process that encompasses all discussed aspects. Encourage board members to participate in development assessments for personal growth, supplemented by external support if necessary.
- **Set Rigorous Selection Criteria:** For new board members, include comprehensive assessment centers that evaluate both hard skills and soft factors.
- **Invest in Team Development:** Allocate time and resources for board team development training, focusing not just on the costs but on the potential for significantly enhanced performance.