



Board Governance and Management Series

What Is a Healthy Board?

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Introduction

John sat quietly in his chair as board members left the room. It had been a long meeting. John, the company's chief executive officer (CEO), had presented some new ideas to reorganize his management team. He believed it was time to move away from the traditional department-silo model of organization to perhaps a more innovative team-based model. John's idea was to form new cross-departmental teams. He believed this would improve coordination and more effectively align incentives to accomplish the company's strategic goals. To make this change, however, John would also have to reallocate lines of authority across and within departments. He was sure the reorganization would provide employees with a fresh, innovative work environment while also boosting company performance.

But John's ideas were heavily contested. Many board members expressed concern over reallocating lines of authority across and within departments. When John repeatedly emphasized this important change, arguments began, tempers flared, and some members left the meeting without speaking to John. By the end of the meeting, John felt defeated and worried that company performance would continue to fall. As he sat in his chair, he wondered if he could have done a better job explaining the reason for change and whether that would have meant a different outcome. John reflected:

"I had no idea such simple, necessary changes in day-to-day operations would be met with such resistance. I presented the results from the morale survey that I conducted six months ago. Many employees felt isolated and without enough interaction within and across departments. I thought reorganizing people into teams would create a more innovative and productive work environment. I am convinced this is needed to improve our performance. I am also convinced this will boost morale and productivity. I wish the board was equally convinced. What I do not understand is why so many members became defensive."

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Every day boards make important decisions to design new policies and procedures to govern their organizations. In doing so, boards allocate resources within rural and urban communities alike. Boards have something else in common: board members often disagree about how to allocate resources and create governance policies. But a disagreement does not signal disloyalty. In fact, a healthy board member naturally expresses his or her opinion, or at least they should. John's ideas may be sound. And the initial resistance may have nothing to do with the merit of his ideas. Simply put, other factors could be at work. But what are these other factors? Could it be that John's board is in poor health? If so, how can John measure the health of his board?

The purpose of this fact sheet is to provide community leaders with a practical framework to determine if the board they serve on is indeed healthy. The fact sheet first defines what is meant by "healthy." A brief discussion follows that highlights how a healthy board successfully governs an organization.

Measuring the Health of a Board's Organizational Structure

So how can John identify whether his board is healthy or not? A healthy board typically exhibits appropriate organizational and social structures.¹ An appropriate organizational structure exhibits nine healthy attributes. The first attribute is all board members should attend all meetings. It is impossible for a board member to add value to the board decision-making process if he or she is not present. However, attendance alone is not sufficient. Every board member should also be involved. The involved board member asks questions such as "what is the purpose of this policy?" Or, "does this policy address the problem?" Those are important questions that any involved board member should ask. In addition, an involved board member should also be prepared for all meetings. This means each board member, at a minimum, should read over the minutes and be prepared to either accept them as they are or identify needed corrections.

A board member should also have a skill set or experience that adds value to the organization. An involved board member should have a skill set that is unique and needed by the board to improve the quality of board decisions. But the board member must commit the time necessary to impart their wisdom and experience. Being a board member means being committed to adding value to the organization, and that only happens when a skilled member attends meetings

and brings their skill to bear on the problems faced by the organization.

Board membership should also be viewed as an honor, not an opportunity. If a board member commits to a board, it should be to improve the organization, not social status. The idea is board members should not have any conflicts of interest. Another way of saying this is a healthy board member does not have hidden incentives to be on the board. A person seeking to get on a particular board to help a friend in the organization is a classic example of a hidden incentive. Other examples include a board member who buys from or sells to the company or has some other interest in business transactions with the company. While many examples can be given, the effect of each hidden incentive results in the same outcome: board decision-making becomes skewed and to the detriment of the organization. Healthy board members do not have hidden incentives. They are people who want to use their skills and talents to add value to the organization, regardless of age, gender, or race. Great board members take steps to avoid conflicts of interest.

The composite age of board members also matters. The idea is the board should have a balance between young and older members. A board that is tipped heavily in one direction or the other is unbalanced. Simply put, a board needs a balance of experience and diversity among members to add value to the organization.

Balance is also necessary when choosing the size of the board. The larger the board size, the greater the cost of meetings and perhaps the slower the decision-making process. This could inhibit the nimbleness of the organization. Typically, the appropriate board size is related to the organizational form, ranging from nine up to almost twenty in many cases.

Three final healthy attributes are needed to provide an appropriate organizational structure. A healthy board should understand how to manage succession at the CEO position. Boards that are healthy understand how to select new, innovative people to keep their organization performing well. Next, a healthy board also realizes the importance of clearly identifying what is expected of its members. This usually takes the form of an agreement that each member signs. The agreement clearly identifies the set of appropriate behaviors and actions. The agreement can serve as a screening mechanism as well as a performance measurement tool when evaluating individual member performance. And finally, the board should have established an orientation process to inform new board members of their duties. A healthy board takes the necessary steps to educate a new member about board performance expectations prior to membership.

When boards exhibit these healthy attributes, they can indeed be great, and do great things for their employees and other stakeholders. In sum, here are nine attributes John can use to measure if his board has a healthy organizational structure. A healthy organizational structure means:

- Board members attend all meetings.
- Board members are adequately involved in the decision-making process.
- Board members possess unique skills or experience that adds value to the organization.
- Board members do not have hidden incentives or conflicts of interest.
- The board features a balanced mix of different ages among board members.

- The board has an appropriate, manageable number of members.
- The board understands how to manage CEO succession.
- The board requires each member to sign an agreement that clearly identifies a board member's expected set of behaviors and actions.
- The board also provides an orientation process to explain the terms of the membership agreement to new board members.

Measuring the Health of a Board's Social Structure

Although the above attributes are necessary to produce an appropriate organizational structure, they are not sufficient to ensure the board has an appropriate social structure. Here are six healthy attributes John can use to assess the health of his board's social structure.

The first and most important healthy attribute is that a climate of trust and candor should exist among board members. Trust simply means board members respect each other and believe each person brings a significant contribution to the board decision-making process.² When this attribute is present, board members speak frankly about their recommendations, creating an innovative environment that usually produces innovative ideas.

Another healthy attribute is a climate of open dissent. The idea is the sharing of honest opinions about a particular action may lead to disagreements. But great boards know this and understand the difference between open dissent and open disloyalty. Great board members trust each other and despite their differences work to develop the best solution to add value to the organization.

The development of trust among members may depend on individual accountability. If a board member commits to provide information on a particular issue at the next meeting then other board members expect to receive the information. Healthy board members understand this and by keeping their word, trust builds among members.

More practically, a healthy social structure also means the board uses a fluid portfolio of roles. This simply means board members do not always sit on the same committees month after month, or year after year. A great board understands that board members should be on different committees to give each a global perspective of the problems faced by the organization. Another healthy attribute is a great board seeks to understand how its committees have performed within this fluid set of roles. When performance has been poor, great boards reallocate members to other committees to better leverage their skill and knowledge. Collectively, great boards seek to understand how well they have performed. An inferior board does not. The result of using a fluid portfolio of roles is development of a practical strategic plan, which shapes the day-to-day operations of the organization. Boards that are indeed healthy set real, practical goals for the organization and measure the appropriate factors to "get the strategy right." Great, healthy boards establish a practical and effective strategic management system to track their critical success factors.

Here is the list of attributes that John can use to measure the health of his board's social structure. A healthy board:

- Creates a climate of trust, and candor.
- Fosters open dissent, not disloyalty.
- Uses a fluid portfolio of roles.
- Ensures individual accountability.
- Evaluates board performance.
- Links strategic plan to measurable, day-to-day factors.
- Implements a strategic management system to track critical success factors.

Inspect the Fruit

After John assesses the health of his board, he may find his board exhibits the above healthy attributes. If the board exhibits these attributes, John should also be able to look at the board's behavior over time and assess whether the board has produced any "fruit" for the organization. Here is a short list of behaviors that John's board should exhibit if it is indeed healthy. These include:³

- The board works through the properly appointed authority structure.
- The board functions as a policy-forming institution rather than an administrative one.
- The board becomes familiar and deals with problems faced by the organization.

Likewise, here is a list of behaviors that signal John's board is dysfunctional. These include:⁴

- Board members divulge confidential information.
- Board members accept gifts from suppliers and contractors.
- Board members interfere with day-to-day operations; they micro-manage.
- A clique has formed among some members and attempts to control board activity and strategic direction.

Move Forward

Two perspectives may help John in the future. First, he should remember his role. As CEO, John will be held responsible for the performance of the company. Change is unlikely with a dysfunctional board. John must keep this in mind as he works through the proper social and organizational structure to bring about his idea for reorganization. Also, John should keep in mind the people "in the trenches." He has the very best at heart for his employees, but not everyone will be in favor of the reorganization. It will be important for John to

keep this in mind as he continues to work to make the switch to the team based model of organization.

As John left the board room, he was determined to work with his board to improve company performance and the working environment for his employees. John reflected:

"The organization needs change. Employees want change. The only problem is I haven't convinced the board that reorganization is the solution to our performance problem. At any rate, I may have lost the battle today, but I haven't lost the war. Keeping in mind the health of my board, I can try again to make my points."

Arriving at his home that evening, John recalled what a friend had told him about working with any board:

"Being a board member for any organization is a little like getting married — first you get on the board, then you realize what you've done!"⁵

John smiled, exited his car, then warmly greeted his wife and children.

Additional Resources

Dr. Barnes and the Oklahoma Cooperative Extension Service offer in-depth training for boards. Trainings cover topics such as (a) improving board governance and management; (b) understanding the role of ethics in business; (c) enhancing strategic decision-making; and (d) building innovative teams. For more information on these training programs, please visit: <http://agecon.okstate.edu/faculty/faculty.asp>. Dr. Barnes can be contacted at the Department of Agricultural Economics by e-mail barjn@okstate.edu or phone 405.744.9825.

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- Extension programs are nonpolitical, objective, and research-based information.
- It provides practical, problem-oriented education for people of all ages. It is designated to take the knowledge of the university to those persons who do not or cannot participate in the formal classroom instruction of the university.
- It utilizes research from university, government, and other sources to help people make their own decisions.
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