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## **Creating the Dynamic Board**

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### **Where we've come from?**

My research on this topic goes back nearly twenty years and I see it as a progression of my understanding and knowledge – against a moving target. Our collective understanding of people and organisations has advanced just as industry and the nature of companies has changed.

The Holy Grail in the mid 1980s was the implementation of the quality movement, espoused from the 1950s onwards. The unique experience I had with Komatsu in setting up their first European plant fired my imagination and gave the opportunity to write “Becoming World Class”. Out of this period grew the ‘Lean Production’ philosophy espoused by Jones, Womack and Roos in “The Machine that Changed the World”. Suddenly, everybody was benchmarking against the automotive industries and this highlighted the stark contrasts of production man-hours per vehicle between Japan and the West. This was not new. In May 1980, for example, Ford compared the labour needed to produce its Transit van in the UK with that needed to build a Toyota Hiace van. The total man-days needed were 12.5 for the British van compared with 2.4 for the Japanese van.<sup>1</sup> The authors of “Supporting Workplace Learning for High-Performance Working” have found that, despite the twenty plus years of lessons learnt on the topic, precious few organisations in the developed West have consistently adopted the ‘hurdles of high performance’ working. Those who have learnt the ‘tricks’ have been either in automotive manufacture or close to it. The service and public sectors seemingly are still unconquered.

The attention of management moved on. The quality movement was okay for the ‘dangerous enthusiasts’, provided their application was confined to the shop floor where ‘they’ could practise continuous improvement to their hearts content.

The holistic lesson practised in Japan was missed and continues to be missed. This is that the quality philosophy was a philosophy affecting how a whole system should operate, from shop floor manufacturing to supplier integration, to customer involvement, to service function support, to top management embracing the philosophy and changing behaviour as a result.

Over the past 20 years, this class system of separating leadership from the means of production has bedevilled efforts to ‘Become World Class’ in Western organisations. Today, many business leaders have given up on earlier aspirations of achieving



overall world-class performance. The vast majority of those interviewed in this study have said it is necessary to be selective when you define 'world class'. Their view is that in the round it is too ambitious to attempt.

My personal education progressed in the 1990s as I deliberately tried to implement the lessons from my experience of working with the Japanese in Western companies. Much of this is covered in "Beyond World Class"<sup>2</sup> and "Leading HR"<sup>3</sup>. One conclusion I came to was that many of the techniques of 'High Performance Working' could be easily applied at shop floor level, but organisations found that improvement was transitory due to lack of behaviour change in middle management and, more importantly, at top management level. This was compounded by continuous tinkering with change methods. Almost as dangerous as no change at all were too many confusing, conflicting and overlapping initiatives destroying continuity.

The undermining effect of negative behaviours in top and middle management has been increasingly recognised, with more and more organisations revisiting the half-century of work by psychologists and sociologists from Jung to Lewin. The context, in my perception, is now different. Whereas the socio-technical movement of the 1970s focused on work groups at shop floor level, and psychologists were employed to aid effective individual recruitment, in the last decade the focus has shifted towards the self-development industry and the means of understanding behaviour and its effects at the top of organisations. In rare cases this has even extended to examining and developing top teams.

In Western developed countries, due to the overwhelming cult of the individual, the jury is still out as to whether the top is a place for team working. Few have made the connection between divisive behaviour at the top and failures in corporate governance, preferring to rely on conformance to 'tick box' rules, eg conflict of interests, numbers and role of non-executive directors, separating role of Chairman and Chief Executive et al.

The growth of the 'corporate governance ethos' has been propelled by demands of stakeholders over spectacular failure and implosions such as Maxwell, Marconi and Enron, not by perceived internal needs for productivity, harmony or avoidance of disruption. So, from the sense of cohesion and support for 'high performance working', we have started at the wrong end. For the improvements at shop floor to gain pertinence and spread through the organisation, corporate governance could have been designed around behaviours that would have supported change and given consistency and continuity. Two internal attributes or values would have been openness and transparency, to build trust within to support change. Instead, openness and transparency have been forced by the corporate governance movement, often on unwilling boards by scarred and suspicious stakeholders who have suffered from past dramatic failures, fuelled by mistrust over obsessive secrecy and misuse of power. Hence the corporate governance parameters are a series of checks and balances designed to protect the interests of stakeholders, not essentially to improve the sustainability of organisations or the economic and social interests of the communities which the organisations serve.

## **Where we are today**



Success in business used to be seen as the ability to run a well-oiled machine. Crisis management needed to be eliminated, otherwise the prevailing ethos would always be fire fighting. With the world in a state of flux, do these successful organisations see the need to create ‘breakwaters’ and ‘harbour walls’ to give a sense of constancy and continuity, so that goals of sustainability can be achieved? How do they deal with the wider stakeholders?

Other studies have documented the increasing desire for understanding of the meaning and purpose of work. This may possibly be the gravitation towards ‘inner directed’ values that was predicted by Francis Kinsman in “Millennium” (1990)<sup>4</sup> and reinforced by Richard Donkin’s “Blood, Sweat and Tears”<sup>5</sup>. Is the growth of the use of values a response to satisfying individual and collective needs? Are we seeing the turning of the full circle, from the paternalistic unitary framework of the 1960s through the pluralistic phase of the 1970s to an alignment by values in 21<sup>st</sup> Century?

To answer this, the research needed to look at the process and experience of change, and to test out the ‘basic premise’ at which I had arrived. This premise is reflected by my choice of ‘By the Skin of Our Teeth’<sup>6</sup> as the title of the book. It was chosen because, for me, it encapsulates how many organisations - in private, public and voluntary sectors – seem to perceive survival and sustainability today. We have to do so many things right to stay in business. It used to be that there was conventional wisdom about success. A formula was defined and refined, based on past successful experience, and was then to be rolled out and applied by competent managers in other organisations. But today so many of the external environmental conditions are subject to such rapid and radical change that simple aspirations to efficiency, quality and best practice are not enough to guarantee survival, let alone growth and durability. Long-term business success remains as uncertain as ever, but accelerating business change means that business strategy has to be reassessed at increasingly frequent intervals.

Consequently, it seems to me that the fundamentals of business sustainability for an organisation in the 21<sup>st</sup> century are:

- to be World Class in all it does;
- to be an “extrovert” organisation with keen antennae sensing trends and opportunities and involving its people in the future;

and, above all,

- to be agile, proactively to anticipate and take advantage of trends, markets and the potential of resources, in particular, the human resource - ‘To catch the moment’, the window of opportunity.

Thirty-four Directors and Chief Executives from a variety of large corporations, SME companies, public sector bodies and voluntary organisations gave generously of their time to participate in lengthy interviews. In these, I explored with them this basic premise about business sustainability.



## **World-class – necessary and sufficient?**

The premise ‘world-class in all we do’ has been a product of the 1970s and 1980s as has, typically, the quest for consistent quality and repeatability in organisations. It has been a necessary discipline to ensure that companies can support their reputation of producing quality products, from automobiles to wine, from healthcare to clean water, effectively and efficiently.

This was fine on its own for the 1980s and some of the 1990s, when being world-class could differentiate organisations from their competitors. But by the middle 1990s, companies could at least aspire by their rhetoric to being world-class in quality terms. Since everybody was doing this, the differential was gone. This research shows leaders of those organisations interviewed do –

- focus on world-class attributes – they have got the message on quality and listening to customers, and they focus on and communicate constant values in a world which, for a variety of reasons, is in a state of flux
- value and use emotional intelligence and right hand side of the brain approaches in developing leaders
- consciously or unconsciously develop the extrovert organisation (with broadly the exception of the public sector) so that antennae are tuned and messages are received. They often recognise the business case for an inclusive approach to stakeholders.

However, almost universally our leaders struggle with issues over agility, innovation and creativity in their organisations. All of them wish their organisations to embrace these. All recognise that for survival, re-invention and renewal, it is vital that the whole organisation becomes more innovative. Also, all recognise that the ability to be agile is a function of culture, and that it is still a great challenge to get all levels to take responsibility for this and to feel free to contribute. They are frankly unsure about this. They are unconvinced that in their organisations the culture is right to promote an atmosphere of agility.

This presents the first challenge. In a changing world order, how can we make our organisations as swift of foot as the one-man-band entrepreneurs? We can all agree it takes collective effort but in an age of extreme individualism with increasing independence via the self-employment mindset, the now familiar adage that management is like herding cats or squirrels comes to mind.

The second major challenge in terms of the biggest threats to corporate existence, is that trust and the reputations of the most stable of organisations are now at stake from, for instance, the extremes of creative accounting and the use of distorted auditing practices hence the sagas of Enron and WorldCom. Many cry for increased rules and regulations, but I argue these are merely safety nets around or through which determined fraudsters can always navigate. A better route in my view is that of process, using the principles of openness and transparency with a wide range of stakeholders, including employees, who not only provide the check and balance on management decisions but who can also influence direction and the ability to innovate, as well as providing the energy for sustainability.



## Linkage with agility

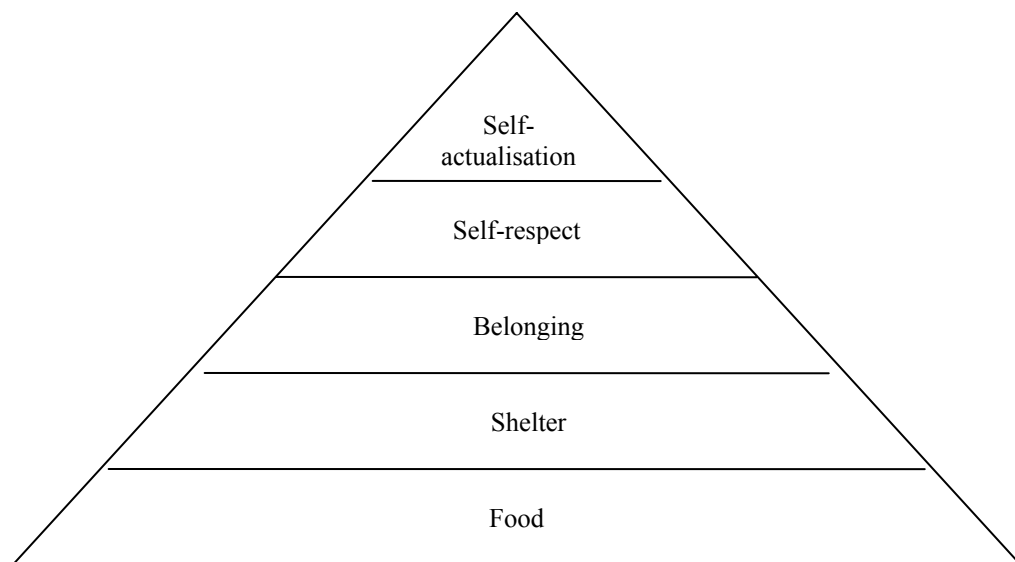
From the evidence there is a clear linkage between the extrovert organisation and agility. Those organisations that have effective antennae are more able to be agile. At face value this is stating the obvious. Unless you have antennae and can read the trends, you don't know where to act.

However, I believe there is another dimension. The more, of an organisation's staff, that are involved in the reconciliation of customer and consumer views and those of the company stakeholders, the more prepared those staff are to be agile. You should not be able to hear people saying 'We've always done it this way, and why should we change?' in extrovert organisations.

## Individuals and Organisations - the search for meaning

I believe there is a model formed by the linkages and dependencies between the attributes, from world-class to vision and values, to leadership, to extrovert and agile. What we have studied, across a wide-ranging number of organisations, demonstrates what I see as a hierarchy of needs for the organisation. I think this has its parallels in Abraham Maslow's now famous and broadly accepted hierarchy of needs for the individual:

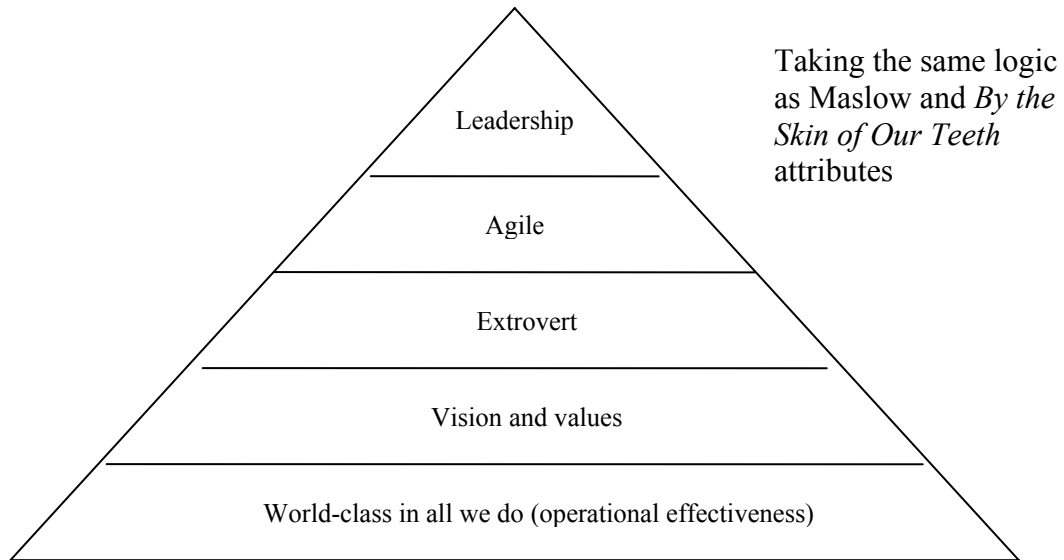
### Hierarchy of Needs for the Individual.



Abraham Maslow



I believe we can take the evidence from the interviews on the basic premise and construct a ‘Maslow’s Hierarchy’ for organisations.



From the research, the linkages, dependencies and co-dependencies can be seen in this hierarchy. The parallels with Maslow become clear. To take this in sequence: -

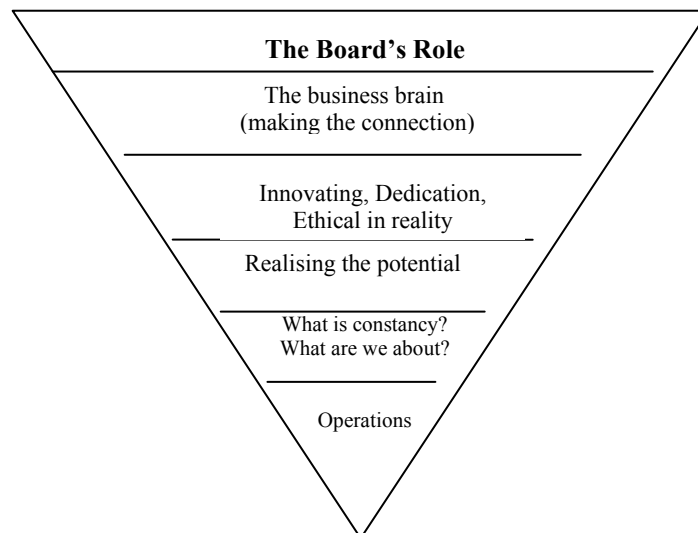
	<b>Organisation</b>	<b>Individual</b>
1 <sup>st</sup> Step	World Class (operational effectiveness) Survival mode	Food (sustenance)
2 <sup>nd</sup> Step	Vision and Values (frameworks, expression of persona)	Shelter (sustenance)
3 <sup>rd</sup> Step	Extrovert (learning and ecology)	Belonging (outer directed)
4 <sup>th</sup> Step	Agile (only with confidence)	Self respect (outer directed)
5 <sup>th</sup> Step	Leadership (learning and evolution)	Self actualisation (inner directed)

So far so good. We have put forward an equivalent hierarchy of needs for the organisation to that for the individual. But what happens when we try to integrate them? Does it work? Who should act as the bridge? Or should we accept that the individual’s needs at work are different and irreconcilable with the needs of the organisation?



My view is that bridging this gap is the most important challenge we face. Second that it is very clearly the Board's role to oversee this. If so, how?

Here I propose that an 'upside-down' pyramid can dovetail between the individual and the organisation and provide 'the bridge'.



## The board's role

Putting it all together, what should the board do to create the dynamic and give the best chance of sustainability?

The Board's role is deliberately dovetailed in this model as a bridge between hierarchy for the individual (Maslow) and the hierarchy for the organisation (for sustainability). While most of the prescription for the board is obvious by inspection, it is worth expanding a little on the model.

Working upwards, it is significant that the lower tip of the triangle covers the smallest area. Boards should not spend a great deal of their time on operations, which are matters for the executive. However, too many boards do get dragged into detail and micro-management.

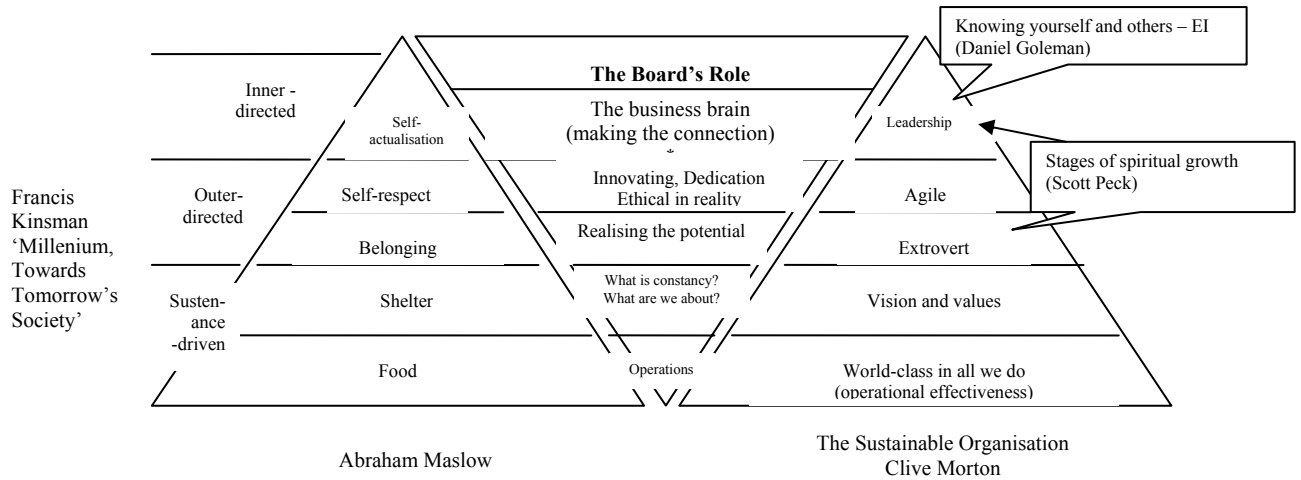
'What is constancy?' What are we about? addresses the focus on vision and values.

'Realising the potential' is the board fulfilling its role in creating the atmosphere in which individuals and teams develop for their own and the organisation's benefit, giving a sense of belonging as well as learning and an outward focus.

'Innovating, dedication, ethical in reality' is about living the values and behaviours, about commitment to stakeholders, giving agility and self-respect. Significantly, each higher layer demonstrates a greater need for investment of the board's time.



## A Combination of Models



\*After Tom Boydell IPD 1996

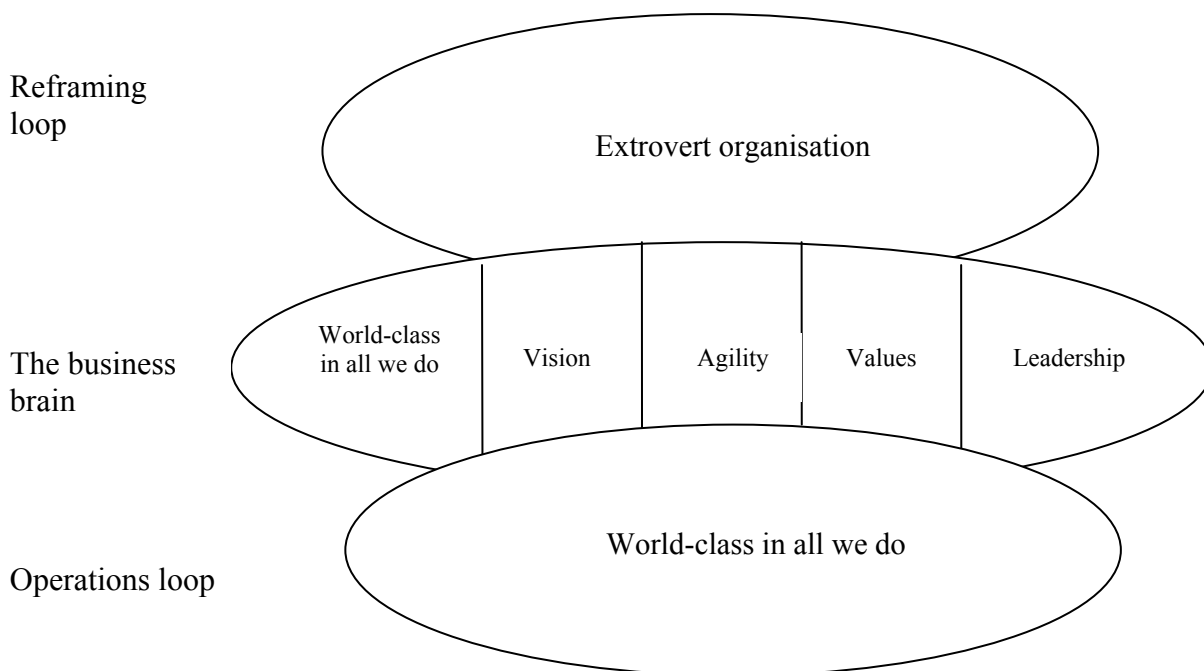


## What is the Business Brain?

The ‘business brain’ is the cerebral cortex of the organisation. This is where self-actualisation and leadership come together to deal with the tricky dilemmas between today’s operations and the future strategy. What is the business brain and how can it be engaged? My colleague in Board Performance Ltd, Professor Bob Garratt has developed a model of the business brain being at the centre of triple-loop learning. (See “The Fish Rots from the Head” Harper Collins 1996.)<sup>7</sup>

Bob Garratt’s point is that the Business Brain needs to be fed in a balanced way from both the data rich element of current and past operations together with visions from the external environment allowing the ‘reframing’ of strategy. Few Boards properly achieve this.

This research has, I believe, helped us to further understand the necessary left hand (logic, reason) and right hand (emotion, spirit) brain activity of that ‘business brain’. Modified it looks thus:



### The Three Learning Loops – after Bob Garratt

#### Defining the cerebral cortex



This is where we come full circle, from the individual needs for development through the organisation's needs, to the 'business brain' of the board that will need to set the policy and strategy for the sustainable organisation in the 21<sup>st</sup> century.

The board, let's face it, is made up of individuals, and they are the people who will determine success or disaster. My colleagues at Board Performance share with me the necessity and urgency of getting this right. Bob Garratt, in his latest book, *Thin on Top* published by Nicholas Brealey 2003<sup>8</sup>, argues that, in the face of increasing corporate governance rules and expectations, board directors need to 'professionalise or face incarceration'. Also, we argue that the performance of directors and boards needs to shift upwards a gear – to raise their game in today's terms to fact the complexities, chaos and uncertainties we have acknowledged in this book. In the context of a loss of confidence in UK Boardrooms the Higgs Review of the role of non-executive directors commissioned by the UK Government in 2003 and the subsequent Combined Code has put forward a powerful principle – the need to evaluate and develop the board.

Evidence, from the successful leaders who granted me interviews and the other experience I have contributed, is that boards have a key role in ensuring sustainability. Indeed, as Bob Garratt shows, this is their legal duty to the company and its prosperity and not, as is often assumed, focusing on short-term shareholder value.

The key role of the board is to balance prudent control with entrepreneurial activity for the future – a classic dilemma.

One leader cannot encapsulate all that a board needs in order to grapple with the dilemmas it faces. We know that the obverse operates – dysfunctional leaders mean dysfunctional boards which mean organisational demise. However if boards evaluate, review and develop against the criteria for a sustainable organisation developed here, I believe it gives the best chance of survival and growth.

As we have seen, this is not a formula. It is more a sustainable process. Bob Garratt acknowledges this in the Learning Board model. The business brain must be fed by both the operations loop and the reframing loop.

This research shows that the business brain is capable of development. Naturally that brain is the sum total of the individual contributions around the board table and other contributions – often from outside. I argue that the often-neglected element in this is the right hand side of the individual and collective brains, hence the emphasis in the diagram above of the contribution of leadership, values and agility, all of which are predominantly right hand brain activity. My conclusion is that, to ensure sustainability, it is on the development of these attributes that organisations, their leaders and their boards need to focus.



## **Bibliography**

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