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Board Effectiveness:
How to increase the impact
of a private partnership board

In our first article on private partnership boards, we explored ways of understanding and measuring the impact of the board and introduced our diagnostic tool.

This tool categorizes the value a board provides into four levels, from level -1, where the board destroys value, to level +2, where the board enables great things to happen. Recognizing whether and how a board impacts management and the partners in the wider firm – rather than simply assuming that it does because 'it's the board' – is a critical step. But it's only the start. Once you understand the impact your board is having, you then need to find ways to improve or maintain its effectiveness, building on strengths and addressing any gaps.

We have worked with many private partnership boards, helping them to develop and become more impactful. We've distilled this experience into the Deloitte Private Partnership Board Effectiveness Framework – the subject of this second article on private partnership boards. This framework provides partnership boards with the insights and solutions to improve effectiveness and further their impact.

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Comparing corporate and private partnership boards

In setting out to improve the impact of a private partnership board, it is worth clarifying how this model of governance differs from more common forms of governance, such as those found in a corporate enterprise.

The table, on the next page, sets out the typical differences between the board of a corporate and the board of a private partnership, that are governing enterprises of a similar scale and commercial complexity. The exact differences will depend on the applicable laws that operate in the jurisdiction in which the company or firm resides.

For the corporate board, we have considered two types of board structure: a supervisory board, where the voting members of the board are from outside the company and are not involved in the day-to-day running of the business; and a unitary board, where the board consists of both executive and non-executive voting directors but where the non-executive directors are in the majority. For the partnership board, our considerations are based on a majority of board members being equity partners in the business but not currently in executive roles.

Even though their roles are broadly comparable, corporate and partnership boards look and behave differently.

Board composition

Corporate board

The majority of the board are appointed from outside the company, through a formal nominations committee. They are usually appointed on the basis of specific skills, knowledge and/or networks that are required by the board to govern the organization successfully. Board members are likely to be at the pinnacle of their careers.

Board effectiveness considerations:

- Board member capabilities are likely to be aligned to the strategic direction, core business and major risks facing the company.

- Board members can be appointed from a wide talent pool and on the basis of their independence from the company, thereby reducing the risk of groupthink. Many, if not most, are likely to be currently serving on, and/or have served on, other boards, enabling them to contribute from a broader perspective.

- Although board members from outside the company bring a fresh perspective, their knowledge and understanding of the company is often limited initially.

- Board members may be less connected and cohesive as a group since their interactions will tend to be limited to board-level meetings.

- The overall size of the board tends to be quite a lot smaller than partnership boards, thereby, facilitating speed of decision-making and greater efficiency.

Partnership board

The majority of board members are equity partners in the business. They are elected to the board by the firm's equity partners on the basis that they typically represent an aspect of the wider business such as a service line, industry or geographical area. They are generally experienced partners who are in or have had leadership or key client roles. However, many private partnership boards do not have formal nomination functions or governance processes.

Board effectiveness considerations:

- Board members have a good understanding of how the firm operates but often limited experience outside the firm.

- The absence of more traditional board nomination processes can lead to sub-optimal diversity of backgrounds and perspectives.

- Sitting on the firm's board is likely to be their only significant board position and perhaps their first. As a result, the board's collective experience of what good (or bad) governance looks like in practice may be limited.

- Given that the talent pool from which the board draws is restricted to the equity partnership, the board may not be able to secure all the capabilities that it needs to govern effectively. Furthermore, there is a risk that board member contributions are limited to their area(s) of expertise.

- The inclusion of various "constituencies" within the partnership means that boards can become very large, potentially slowing down decision-making and reducing efficiency..

Primary accountability

Corporate board

Primary accountability is to owners (shareholders) who may be external and invisible to the business, and many of whom can freely change. This may drive a more short-term focus on results rather than longer-term value creation. Dialogue with major shareholders is often a focus of the board.

Board effectiveness considerations:

- Owners may not be invested in the success of the company beyond relatively short-term financial gains, which can lead to the board and management focusing on quarterly financial performance.

- In some cases, the owners' aspirations and those of the business and/or leadership may not be fully aligned.

Partnership board

Primary accountability is to equity partners as the owners of the business. They tend to commit to the firm for the medium/long term and take a correspondingly long-term view, while also looking to extract current-year returns, given that there are no tradeable equity interests. Generational fairness can also be a significant consideration, for example, where proposed capital investments might disadvantage any partners who are close to retirement because the returns will not be seen for a number of years.

Board effectiveness considerations:

- Owners are interested in balancing the short (in-year), medium and long-term success of the business, including protecting the business for future generations of partners. This can lead to the board and executive wrestling with competing priorities (financial and non-financial) over different timeframes and failing to deliver a coherent direction and strategy.

Organizational understanding and objectivity

Corporate board

The majority of board members are not involved in the day-to-day running of the company and do not routinely interface with the company CEO or management.

Board effectiveness considerations:

- Board members are more likely to be able to engage with the executive as respected equals given their 'external' credibility and independence from the company.

- It can be harder for board members to understand what is really happening in the organization and, therefore, they may find it harder to ask the right questions at board-level or to recognize a truthful answer. However, this can be offset by the beneficial insights they bring from elsewhere, whether from the same or other industries.

- Their ability to seek meaningful feedback on topics that are being discussed by the board or to positively advocate within the business for the board's decisions is limited.

Partnership board

Board members are involved in the day-to-day activities of the business, and may, as part of their non-board role(s), work with the CEO and their team.

Board effectiveness considerations:

- Board members' contributions are likely to be grounded in the reality experienced by partners and people in the business.

- Their ability to seek meaningful feedback on topics being discussed by the board is high, as is their ability to positively advocate for board decisions.

- Board members, by virtue of their day-to-day involvement in other aspects of the firm, may struggle to take a sufficiently dispassionate or objective view on what is right for the business overall. Furthermore, they may stray into operational management, and/or become mired in detail rather than providing insightful strategic questions or observations.

- Without external experience and the credibility that that goes with it, board members may find it harder to establish genuine respect from management, including the CEO.

Board dynamics

Corporate board

The board chair is often the most experienced and respected person in the boardroom. It is highly unlikely that a board member will remain in the business beyond their board tenure. For most board members, their performance appraisal is conducted by the board chair and their remuneration is linked solely to their board role.

Board effectiveness considerations:

- There are likely to be higher levels of challenge and scrutiny of management, including the CEO, from a broader range of perspectives.

- There is a risk that the board chair can be unduly powerful and dominant.

- There may be an information gap between the chair and the rest of the board owing to the chair's primacy and more frequent contact with the CEO and management compared to other board members.

Partnership board

The CEO is likely to have been elected based on a manifesto that has been accepted by the wider partnership. Board members may remain in the business beyond their board tenure. Board member appraisals are likely to be undertaken by a partner who is not the chair and will cover their performance in multiple areas, not just their board role.

Board effectiveness considerations:

- Levels of collegiality between board members and between the board and management are likely to be high given that they have often known one another for many years and work together on a day-to-day basis

- The CEO can be unduly powerful and in the worst cases, may decide to ignore or bypass the board.

- Board members may have multiple and even conflicting priorities associated with their roles in the business that limit their ability to fulfil their board responsibilities.

- A desire to secure a senior role in the business beyond their board tenure can restrict board members from truly challenging and holding to account the management on whom their future appointment may depend

Room for improvement

Some partnership boards undertake formal self-evaluations consistent with corporate governance best practice, and we encourage this approach. However, we have noticed a pattern in the case of underperforming partnership boards where they either haven't done a board effectiveness review or they haven't taken the process seriously.

Instead it has essentially been a tick-box exercise where board members are merely asked to complete a self-assessment survey. We know that under circumstances like this, there is a high risk of positive-response bias, where people rate the things that they are invested in more highly than an objective outsider would. This is why an 'outside-in' perspective, as adopted in our board impact diagnostic tool, is so important and so revealing.

In fact, when we ask management, partners and other stakeholders, including board members, to rate their own board using the diagnostic tool, they report recognizing some characteristics from several of our impact levels but, on aggregate, score themselves at around level 0.5, which leaves significant room for improvement.

Why boards underperform

As we outlined in our previous article, Board Impact: understanding and measuring the impact of a private partnership board, only the very best boards consistently perform at level 2.

Instead, and reflecting on the board effectiveness considerations outlined above, we often see the following playing out in boards that lack positive impact:

- The board does not have the right talent to govern the firm effectively and oversee the key strategic risks facing the business. Groupthink can be an issue for private partnerships – partners tend to be from the same or similar profession, demographic and may have spent all or most of their careers in one firm. This effect can be exacerbated by the fact that onboarding and professional development for board members is often cursory at best.

- The balance between challenging and holding management to account versus supporting and trusting management is not healthy. Often, the issue is too much trust in management and an unchecked desire to be collegiate. This can lead to an unwillingness to address difficult topics or initiate uncomfortable conversations. In the worst cases, it manifests as undue deference to 'rainmakers' and leaders, particularly during periods of success, and the risk that perceived 'loyalty' to management will be rewarded. This is compounded by the fact that partners that sit on partnership boards still operate within the hierarchy of the firm and, therefore, may not feel safe in challenging management.

- The board as a whole and individual board members are disconnected from the wider partnership, despite the fact that partnership board composition ought, by its very nature, to enable better stakeholder engagement. In the worst cases they operate in an 'ivory tower' and are not perceived to further the interests of the partners as owners of the business.

Indicators of impact

Our previous article, gave a detailed picture of what having high-impact boards (level 2) looks and feels like. Ultimately, it can be distilled down to three points:

- There are clear examples of management proposals changing for the better as a result of board-level dialogue.

- Management describes the board helping them progress their thinking and decision making on key topics.

- There are clear examples of board monitoring leading to management rectifying poor performance and/or conduct inconsistent with the firm's strategy/or values in a timely manner.

Boards and board chairs that cannot confidently lay claim to these assessments cannot describe themselves as 'high impact'.

The Private Partnership Board Effectiveness Framework

The Deloitte Private Partnership Board Effectiveness Framework provides a roadmap to better boards, greater positive impact and, ultimately, more successful private partnerships. Developed over decades of working with boards at all points on the spectrum, from successful and highly effective to dysfunctional and damaging, it sets out in simple terms the key elements of an effective board and by describing them, makes it easier for boards and their chairs to move in the right direction.

Steering a board's performance to higher levels is primarily the responsibility of the chair, but we would argue that each and every board member also has a duty to the partnership to be aiming at and working towards greater effectiveness. So, while this Board Effectiveness Framework is a tool for chairs, it should be considered and discussed by all board members.

Within our Board Effectiveness Framework there are eight areas of focus (see diagram). Taken together they enable a private partnership board to fulfil its primary roles – stewardship, oversight and accountability/representation (see our previous article for an examination of each of these roles).

1. Board composition and talent

Effectiveness starts with the composition of the board and ultimately the talent that sits around the board table. While we recognize that the composition of the board will be determined by the firm's partnership agreement or other legal documents, the best private partnership boards demonstrate the following:

- The expertise, experience, diversity and representation of board members can be directly mapped against the firm's purpose, strategy, risks and operating environment.

- The size of the board is not unwieldy and allows the board to operate efficiently.

- The board has given due consideration as to whether it would benefit from independent board members to minimize the risk of groupthink. Where specialist knowledge or expertise is lacking, the board proactively seeks it out either within the firm or from outside.

- Succession planning and preparing partners for future board/ leadership positions are active priorities.

- The roles of board chair and firm CEO are split and not occupied by the same person.

- Each board member makes a positive contribution to the effectiveness of the board.

2. Board tone and dynamics

The second-most important enablers of board effectiveness are board tone and dynamics. For board members and management to trust one another and to contribute at their best, the following conditions are required:

- The board is an environment in which all members feel safe to contribute and challenge without repercussion, particularly in relation to their future careers post-board.

- There is a board charter or ways of working document that has been agreed by all board members. Many partnerships have a partner charter and these documents provide a useful starting point for the development of a board charter (see right).

- No one voice is dominant in the boardroom, especially the chair or CEO's.

- Board members are cohesive and trust one another.

- The board strikes a balance between trusting and challenging management.

- There is a clear understanding among board members of the differences between, and when to accept reassurance and seek assurance.

- The board and management spend 'informal time' getting to know one another and building trust.

Board charters

Increasingly, partnership boards are choosing to draw up charters to articulate their purpose, values and ways of working. We endorse this as an approach to firm up board responsibilities and expected behaviors and many of Deloitte's boards have produced their own version of a charter, each tailored to the circumstances of the regional entity for which it is written. A good board charter will outline the board's vision and purpose – what it is trying to achieve– and the way it expects to deliver on this purpose, including statements around integrity and mutual respect, diversity, collective responsibility and confidentiality. These are useful both as affirmations of shared values and purpose and also as a benchmark against which board members and others can evaluate the board's performance.

3. Board agenda and forward plan

A board can do nothing about the past, very little about the present, but a great deal about the future. Given this truism, the board should seek to:

- Set its own agenda in collaboration with management.

- Spend most of its time on matters of stewardship (i.e. c.70%). This includes discussions and decisions relating to the firm's purpose, strategy and strategic execution, sense of partnership, appetite for risk, sustainability, culture, and talent.

- Agree a 'shared agenda' with management – three to five strategic topics that matter most to the firm's success. These topics are discussed, debated and progressed in both management and governance forums and during board 'retreats' and 'away days' with management.

- Ensure that the board is focused on the right topics at the right time by agreeing a plan for which agenda items will come to the board and when over the next 12 months.

- Adopt a 'consent agenda', where appropriate, to ensure that the board's time is spent optimally. This allows for less material items of board business to be approved without significant discussion on the understanding that all board members have read the relevant papers and have no queries as a result.

4. Partner and wider stakeholder engagement

Engaging with key stakeholders, in particular equity partners, is key to the board performing its accountability and representation role well. Effective stakeholder engagement includes elements of the following:

- Board members are visible and proactively engage with partners and stakeholders to determine strategic priorities and to seek their feedback on how the firm's governance arrangements are operating and can be improved.

- The chair and the CEO, and potentially other board members, have worked through and agreed how they will manage communications to and engagement with partners and other key stakeholders, including clients. This will include what they will do together and what they will do separately, and, of course, the key messages that they will share.

- The board deploys a variety of engagement methods to ensure partners know what is being discussed and when. These could include:

  – regular newsletters/emails on important topics

  – townhalls/all-partner meetings

  – partner calls

  – engagement and sense of partnership surveys

  – agenda and board minute sharing

  – new-partner onboarding

5. Board learning and evaluation

Governance is never static; it is dynamic and constantly evolving in response to the environment. For boards to remain effective, they should consider whether:

- There is an effective onboarding process for new board members.

- The board and committees continually reflect, both formally and informally, on their impact using the Deloitte Board Impact Diagnostic Tool, together with the Framework outlined in this article, and can evidence improvements as a result.

- Individual board members regularly seek feedback from management and other board members on the impact they are having at board-level and make behavioral changes where necessary. In considering their impact, board members can use the framework outlined in '<u>Impactful board members: Attributes that add value</u>', which highlights the importance of business credibility, personal style and contextual understanding.

- The board receives training and briefings in relevant areas

- Individual board members engage in development activities specific to their roles, including mentoring and/or buddying, where helpful.

6. Governance structure

It may be an overstatement to say that board meetings are often more about ratifying decisions than making them, but it is certainly true that the effectiveness of partnership boards can be significantly improved through the use of appropriately resourced committees.

- Delegating tasks and areas of oversight to committees is a powerful way of amplifying the board's reach and improving its agility in addressing strategic issues, from regulatory and governance themes to talent retention and digital transformation. It is also a way of developing board talent for the future and ensuring that individuals feel engaged and valued.

- Committees and other governance forums should be appropriate, effective and efficient, providing meaningful updates and assurance to the board without supplanting its authority in any given area.

- The board should have opportunities to meet on its own without management present

7. Board reporting

Board members should receive high-quality information – board packs – that is relevant to the agenda and that arrives in good time to enable them to understand the issues and consider their responses ahead of meetings. Given the significance of the decisions shaped by the information contained in board packs, it should be a given that private partnership boards make the quality of these packs a priority. Sadly, this is often not the case. In fact, in our experience, most board report writers have had little or no training in how to produce reports and present information.

Board chairs and members should consider the following:

- Is the information in the board packs comprehensive, accurate, easy to understand, timely, and relevant?

- Is it aligned to the board's charter or constitution?

- Are the key messages and data clear?

- Are committees providing the right information in the right format?

- Is the information sufficiently strategic. Is it too backward looking?

- Does the board pack support or obstruct good decision making?

- How are board packs shared and are they secure?

- What do board members think of the quality and value of their board packs?

Addressing these questions and considering board reporting in the context of the decisions it drives should help chairs to appreciate the value good reporting can add – and the risk and waste associated with poor reporting.
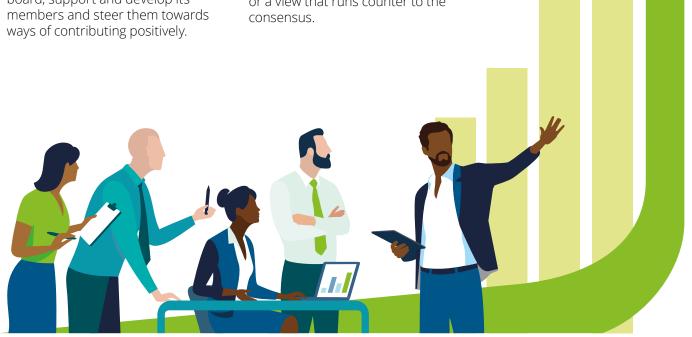
8. Chair leadership

The chair is pivotal to the effectiveness of the board: they must be an effective leader of the board, supported by effective governance leadership from committee chairs and executive leadership from the CEO. Chairs should consider the following in framing their style of leadership and conduct in the role:

- The axis between the board and the CEO should be the chair's number one priority. The relationship between the chair and CEO should be based on trust and respect and should not position the chair as the CEO's line manager.

- The board chair in a private partnership has a greater responsibility to be able to act as a counterweight to management when required than their equivalent in a corporate board.

- It is the chair's job to create a board culture in which members are empowered and feel safe to challenge management.

- It is the chair's job to nurture the board, support and develop its members and steer them towards ways of contributing positively.

- Chairs should be champions of board evaluation, always looking for ways to improve their boards and foster better relationships with the CEO and management.

- Chairs need to understand that they are first among equals: their responsibilities as chair are additional to their responsibilities as a board member. They do, however, conduct the board, directing its energy and focus and it is their job more than anyone else's to shape the board environment and culture so that it supports and promotes the genuinely free exchange of opinions and ideas.

- Chairing board meetings is a complex skill that deserves attention and chairs should be willing to acknowledge that they can improve how they perform this core role. Board chairs should ensure that all members of the board have an equal opportunity to meaningfully contribute. They also need to become adept at bringing board members into discussions, particularly when she/he knows an individual board member has an insight to share or a view that runs counter to the consensus.

- Chairs are advocates for the business and conduits for external perspectives. They should champion the firm's successes but always be receptive to insights and opinions that may reveal unforeseen risks or opportunities.

Legacy and future

Implementing the Private Partnership Board Effectiveness Framework is a long-term project – performance improvements are not delivered overnight, particularly when they involve a significant shift in mindset. Enhancing board effectiveness takes time and commitment, particularly from the board chair, and a willingness to embrace and champion behaviors and attitudes that may feel unfamiliar. It is critical that this self-reflection and improvement happens since private partnership board members have a duty that goes beyond that of any corporate board: to promote and protect the firm's sense of partnership. This is captured perfectly in the extract on the right.

This extract from the introduction to the Deloitte Ireland LLP Partner Charter provides a good example of the way a charter can set both tone and expectations:

Our time as partners is a privilege and we embrace our responsibility to make a lasting impact. As stewards of our business, we recognize those who came before us by building on their legacy.

Our purpose is our reason for being, it describes why we exist – to make an impact that matters. Our values are our guide and our clients' agenda are at our core. We strive towards excellence, driving innovation and making a positive difference in the world.

As a partner, I recognize the power of my role. My words, actions and behaviors represent our brand in the market and with our people. I am an authentic and impactful leader, fostering our collaborative and entrepreneurial culture.

Together as partners, we are stronger. United by our shared purpose, values, and culture, we support and look out for one another. Our sense of partnership is the foundation of our collective success.

We hope you find the Private Partnerships Board Effectiveness Framework useful. Please let us know your experiences of using it and of any insights on how it might be improved.

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ACKNOWLEDGMENTS

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