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Organizational Effectiveness: The Role of the Board of Directors

by

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Editor's Digest

Organizational Effectiveness: The Role of the Board of Directors

Working to improve organizational effectiveness is the Symphony Orchestra Institute's clarion call to all orchestra organization participants. The American Symphony Orchestra League, for its 1999 annual conference, invited Paul Judy to organize a panel discussion on the role of the board of directors in advancing organizational effectiveness. Joining him on the panel were Nancy Axelrod and Thomas Witmer.

Performance Excellence

After defining organizational effectiveness as the pursuit of performance excellence, Witmer outlined four keys to achieving that goal. He then went on to describe what he views as the primary components of the directors' role: assessing, assuring, contributing, and intervening. While acknowledging that reaching a high level of performance excellence is not an easy task, Witmer suggested several ways in which board members can become more catalytic within their organizations.

Extraordinary Influence

Axelrod reminded those in attendance that we sometimes forget the extraordinary influence that the board of directors has on a symphony organization and the degree to which others regard board members as the "guardians" of the organization. She lauded the value of board development activities, and reported on a study by Harvard's Richard Chait that investigated what makes effective boards work.

Organizational Effectiveness

After establishing a framework within which to discuss organizational effectiveness, Judy explored the role of the board in evaluating and improving that effectiveness, suggesting that a concern in this area should be high on every board's list. He posited that each symphony orchestra organization board must address its own composition, functioning, and effectiveness on a regular basis and following that assessment, take actions toward steady improvement.

Organizational Effectiveness: The Role of the Board of Directors

What is the role of the board of directors of an orchestral institution in seeking and achieving organizational effectiveness? At the June 1999 conference of the American Symphony Orchestra League held in Chicago, I was pleased to organize and participate in a panel discussion of this topic. Joining me in this endeavor were Nancy Axelrod, principal of NonProfit Leadership Services, a Washington, DC consulting firm and founding chief executive of the National Center for Nonprofit Boards; and Thomas Witmer, a member of the board of directors of a number of commercial corporations and of the Pittsburgh Symphony Orchestra, for which he has been a catalyst of organization change. The following are excerpts from the three panel presentations.

The Pursuit of Performance Excellence

Tom Witmer led off by defining the role of the board as “actively assisting in the achievement of organizational effectiveness, which must be defined as the pursuit of performance excellence.” He went on to define performance excellence as “meeting customer requirements, both internal and external, 100 percent of the time, on time, every time, at the lowest possible cost.” In the case of a symphony organization, “customers” include concertgoers, patrons, foundations, music education systems, musicians, board members, volunteers, and the management staff. Witmer believes that performance excellence in all its dimensions is very difficult to achieve and that it is best accomplished in diligent incremental steps. To achieve that goal, he said, each constituent must take responsibility to constantly strive for continuous and breakthrough improvement, and management must take responsibility for leading this effort.

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Witmer outlined four keys to achieving performance excellence:

- ◆ **Culture and values.** Organizational culture and values drive success. An organization which has achieved performance excellence will exhibit a culture that genuinely values and empowers all constituency members and that embodies mutual caring and trust. The successful organization will be guided by values that define the organization's nonnegotiable behaviors, which are behaviors "passionately held at the gut level." For a symphony organization, these core values might include excellent service, both internal and external; quality throughout the organization; preserving and sharing the value of music; and an environment that encourages teamwork and individual growth.

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- ◆ **Tools.** An organization must have the right tools to achieve performance excellence. These organizational attributes might include such things as:
 - teams that are empowered to work across functions and constituencies;
 - defined quality improvement processes;
 - strategic planning techniques such as the Hoshin Process (see *Harmony* 7, October 1998, for an explanation of this process);
 - serious commitment to and investment in training and recognition;
 - partnerships with customers and suppliers; and
 - widespread use of defined performance and quality assessment measures.

- ◆ **Leadership.** An organization that has achieved performance excellence will have leaders who display an unwavering commitment to improvement in every area, all the time, by every member of the organization, and to a culture that encourages empowerment, mutual respect, and trust. The leaders will ensure that a clear system of benchmarking against the best functions and processes is in place, and that the organization has developed a focus on customer satisfaction, both internal and external. The leadership will encourage continuous learning, coaching, and nurturing for those within the organization and will emphasize continuous communication to all constituents, including the board, musicians, volunteers, and management. Strong and successful

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leadership will develop and encourage a “performance–excellence–based human ecosystem.”

- ◆ **Alignment.** A final factor in performance excellence is “alignment,” which Witmer defined as “agreement on strategic and operational imperatives across all four constituencies (board, musicians, volunteers, and management).” There must be open communication, a clear understanding, and buy-in across and down the organization. Successful alignment will result in a widespread sense of ownership and will encourage individual motivation, which is the key to empowerment.

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For Witmer, the board of directors plays a key role within a symphony organization. He sees that role as having four primary components:

- ◆ **Assessing.** Board members need to assess their organization’s performance against outside standards and benchmarks. Their assessment should be based on an understanding of what the organization’s mission and vision are, a sense of what “performance excellence” means, and an ability to evaluate performance versus expectations.
- ◆ **Assuring.** Board members must assure diligence in the pursuit of performance excellence in all its dimensions. It is the board members’ responsibility continuously to support and encourage all board colleagues, musicians, volunteers, and staff to strive for performance excellence.
- ◆ **Contributing.** Each board member should be expected to contribute personally to those areas in which he or she has expertise, experience, strengths, and/or broad knowledge. Board members should be prepared to contribute not only on their own initiatives, but also as requested by the board chair or others in the organization. “Pick those areas where you can best contribute and focus on them a significant amount of your personal time,” advised Witmer.
- ◆ **Intervening.** In this area, board members should use care and restraint. Intervention should only take place as a last resort, if minimum standards are not being met.

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After explaining the board's role, Witmer then outlined a range of ways in which symphony board members can become more involved and catalytic in their organizations. His suggestions included mentoring key managers, sending congratulations when goals are achieved or significant accomplishments occur, and asking good, sometimes embarrassing questions. He further offered that board members can make significant contributions through facilitating strategic planning and prioritizing, supporting specific performance excellence initiatives, and defining, exploring, and assessing organizational issues.

Continuing his thought of specific ways in which board members can contribute, he added the following: pushing for growth, planning, and expansion; encouraging stronger marketing and new product development; pushing to break management paradigms that stultify growth and progress; and advising on improved reporting to the board. Because many symphony board members hold senior corporate positions, Witmer suggested that they have much to offer their symphony organizations, such as being willing to become chairman; overseeing the development of new strategies, culture, and management behaviors; suggesting new tools for organizational development and cultural change; and authoring audits of management processes and developing specific recommendations for change.

In closing, Witmer offered the following thoughts about the challenges and possibilities of achieving greater effectiveness in orchestra organizations:

- ◆ All organizations need to continuously improve or they go backwards.
- ◆ Nonprofit organizations generally lag behind the more progressive for-profit companies and need help to become more organizationally effective.
- ◆ The potential resources available in board members, musicians, volunteers, and management are enormous and largely untapped.
- ◆ Unlocking these untapped resources requires management leadership with a focus on recognition and empowerment. Proactive help from board members is also required. It is management's job to harness these untapped resources and the potential by providing the needed leadership.
- ◆ Organizational effectiveness is difficult to achieve with four different constituency groups and no single chief executive officer.
- ◆ Every constituent contributes more when he or she feels the warm glow of appreciation.
- ◆ And finally, it is the primary job of directors to proactively help the organization they love so much!

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A Board's Extraordinary Influence

Nancy Axelrod began her presentation by noting that America's nonprofit sector has experienced extraordinary growth in the last three decades in terms of numbers of organizations, size of the workforce, and contribution to the economy's gross domestic product. The sector is larger and more pluralistic than most Americans realize. In the last few years, there has been an increasing emphasis by taxpayers, supporters, and concerned citizens on accountability, and on the way in which nonprofits are governed and operated. Boards are being held more accountable and are beginning to examine more closely their roles and responsibilities.

For Axelrod, the performance of the board of directors is quintessential to the quality and effectiveness of a symphony orchestra organization in advancing its mission. "I think that we sometimes forget the influence of the board and the degree to which others regard board members as stewards and guardians of the organization. Board members have

extraordinary influence, not only in obvious areas, such as the quality of the executive director they are able to attract and retain, but also in how they respond to complaints from staff members, musicians, or community leaders, and how they act toward each other at board meetings and other public events."

She then quoted Cyril Houle, "A good board is a victory not a gift," noting that Houle's quote uniquely captures the idea that good governance and effective stewardship, as practiced in a growing number of nonprofit organizations, do not happen by accident. As strange as it may seem, she said, it is possible to have a group of board members who are competent as individuals but who form an incompetent team. The reasons for this may be many. For example, if the executive director fails to perceive the benefits of creating the conditions for a strong, effective board, then board development is likely to be last on a long list of things to be done. In addition, if the board chair is indifferent to the idea of nurturing the development of board members and fostering a sense of cohesiveness, there is little that can overcome the resulting inertia.

Until recently, observed Axelrod, board development—a term used to describe the cluster of activities regarding the orientation, continuing education, and engagement of board members—was a widely praised but typically under-emphasized activity. She believes this condition is changing as board chairs and

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chief executives begin to place a greater value on board development as a means of helping the board do its job more effectively.

She then reflected on another quote, this one from Richard Chait, a professor at the Harvard Graduate School of Education: “Many board members do not perceive the work of the board to be meaningful, focused on crucial issues, or central to organizational success.” Axelrod said that Chait’s observation was certainly true when she was at the National Center for Nonprofit Boards (NCNB), where she had a chance to explore the different governance cultures in which boards operate. The NCNB found that many of the board members who participated in its programs or called for advice derived meaning and purpose from the mission of the organizations they governed, but often questioned how much value they were really adding, or whether their attendance at board meetings made any material difference to their organizations. Because board members tend to be busy people whose time is valuable, they increasingly want to find ways to structure board activities to be meaningful, engaging, and tailored to make the best use of their time and attention.

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Axelrod explained that the performance of the board is directly related to the quality of the partnership among the board, the executive director, and the music director. If the board has confidence in its chief staff officer and views that person as a leader, it can devote more of its time to overall governance matters. Conversely, if the executive director views the board not only as a fiduciary body and legal necessity, but also as part of the symphony organization’s “brain trust,” he or she can more effectively engage the board in shaping the organization’s policies and programs.

She suggested that there is no single effective model for a nonprofit board, nor is there one “best way” in the domain of trusteeship, but she does think there are critical principles, best practices, and promising new approaches to governance that can help boards become more effective. Since the needs of symphony organizations vary so widely, board members must determine how best to fulfill their responsibilities in light of several organizational factors, including the leadership capacity of the people involved, the organization’s age and maturity, and the organization’s traditions and culture.

She then reported on a recent study conducted by Chait, who along with several colleagues, investigated what makes effective boards work. From this study, Chait and his colleagues developed five benchmark behaviors that characterize effective boards:

- ◆ Helping management discover and decide what matters most to the long-term future of the organization.

- ◆ Providing opportunities for the chief executive to think aloud about issues of importance to the organization.
- ◆ Developing and implementing mechanisms for institutional oversight and ways to monitor organizational performance and progress.
- ◆ Pushing against the organization's natural resistance to change by using new models and metaphors and by asking different questions.
- ◆ Modeling the behavior the board would like to see incorporated into the culture of the organization.

Addressing the third and fifth benchmarks, she noted that those who work in the business sector know that board members and professional leaders of both privately held and publicly traded companies often use very specific indicators to measure performance, such as earnings per share or return on investment. Unlike for-profit boards, she said, most boards of nonprofits do not systematically monitor critical performance measures beyond indicators of the organization's financial performance. Boards are given large amounts of data on easily quantifiable inputs, such as numbers of tickets sold or the costs of various programs, but they receive less information about and give less attention to the impacts or results of those activities.

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One of the biggest challenges for nonprofits is to develop ways for both the board and management to measure the performance or results of their organization's programs and services. Axelrod suggested that boards, in concert with senior management, should develop sets of specific performance indicators that enable them to monitor performance. But in order to do this, the board and management must first agree on the critical factors that will define their particular organization's success and identify the variables that will determine whether their organization will flourish or falter.

According to the Chait study, said Axelrod, an effective board is also one in which board members model the behaviors they wish others in the organization to develop and incorporate into the organization's culture. Thus, board members must “walk the talk.” If boards are concerned about high levels of productivity, accountability, and creativity for staff, musicians, volunteers, and others in their symphony organization, they should likewise apply the same high standards and expectations to themselves in their work as a board.

Organizational Effectiveness

I concluded the panel presentations by first exploring the meaning of “organizational effectiveness.” I noted that the Symphony Orchestra Institute was formed to foster change in the ways in which symphony orchestra

organizations functioned, toward the achievement of greater effectiveness. In our founding charter, we defined an effective symphony orchestra organization as one in which the external and supporting constituencies, being well informed, were satisfied on a sustained basis and in all significant respects with the performance of their symphony organization, and the internal constituencies—employees and working volunteers—were engaged and challenged by their organizational participation and by the opportunities which existed for professional and personal growth.

The Institute's steady view has been that organizational symbiosis would contribute significantly to the community's valuation and regard for the symphony institution and therefore to the community's sustenance of that institution through audience and charitable support.

I then pointed out that attaining and maintaining a high level of organizational effectiveness was important, in fact vital, to the life of a symphony organization, and absolutely necessary if the institution's musician and staff employees were to receive growing rewards and recognition for their work at levels competitive with employees in business organizations in their communities.

I went on to explain that to date, I have not heard or seen anything which much altered my view of what effectiveness means in the symphony organization world. It is the participants directly involved in a symphony organization—staff and orchestra employees, and active volunteers (representing themselves as non-compensated workers, as well as the eyes and ears of the community), along with audiences and contributor representatives—who must determine the level of effectiveness of this community enterprise. Effectiveness involves a multidimensional self-appraisal; the stakeholders in a symphony organization must decide if the system they work in and support is functioning in a really satisfactory way, in all of its human interactive, productive, artistic, and economic dimensions. Given that judgment, they are obligated to decide what improvements they can and must bring about. They need to resolve among themselves their level of commitment and energy to pursue a course of positive change, ongoing over time, in such a way as to weave change and learning right into the cultural fabric of their organization.

“It is the participants directly involved in a symphony organization . . . who must determine the level of effectiveness of (their) community enterprise . . . (and) what improvements they can bring about.”

I then explored the following question. Within this framework, what is the role of a symphony board in evaluating and improving the effectiveness of the organization for which it is charged, under our laws, to oversee?

Given its significance to longer-term institutional survival and vitality over time, and in some cases to short-term survival, I said that it is my opinion that

a concern for organizational effectiveness should be pretty high on the list of board duties, if not at the top of the list. When we think rather traditionally about the most important tasks of a symphony board, many would put fundraising and high-level financial oversight as central tasks, with perhaps some role, every three to five years, to engage in long range planning. Others would then add the performance evaluation of the executive director, and even others, the ambiguous oversight and judgment of the music director's performance. But, unfortunately, not many board members would list "organizational effectiveness" as one of their primary concerns.

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If asked about this topic, many board members would perhaps respond as follows:

Well, how our staff is functioning is pretty much a management matter . . . and how the orchestra is doing organizationally is pretty much the concern of the music director, and some staff, and maybe the orchestra committee . . . and how we, the board, are functioning, or might better function, is really the concern of the chair or the executive committee . . . and, of course, the volunteer leaders have responsibility for how their groups are functioning . . . but then, of course, each of us individually, as participants, has some responsibility for how our group is doing . . . but, then, if you also mean how are we functioning overall, such matters as, are all participants working together toward a shared vision, are we improving the level of interpersonal working relations and communications all around the organization, are we developing cross-constituency coordination, orientation, and engagement, are we sharing information more broadly, and bringing about greater personal and professional development, involvement, and satisfaction within the organization, and, more generally, are we improving as an organization . . . or matters of this nature . . . well . . . no one is really thinking about that, or in charge of that . . . but, then again, many of us in all the various constituencies do probably think about these matters . . . I certainly do . . . but, then again, we hardly ever discuss what we are thinking and wondering . . . questions are on our minds, but they just don't get out on the table and discussed, never mind acted on.

All of that, I explained, brought me to the conclusion that in most symphony organizations, how the organization is functioning within and between its components is given thought by many participants, but doesn't generally get discussed or acted on in a positive, constructive, and ongoing way toward steady organizational improvement.

Under most state laws, boards of directors of for-profit and nonprofit corporations usually have the very simple statutory directive — to provide general

oversight to the affairs of the corporation. In the case of a nonprofit organization with such a broad and central community service role as a symphony organization, I observed that boards, in my view, should be composed of representatives of all the constituencies making up the organization, coupled with representatives of the diverse segments of the community, with due but not concentrated emphasis on the board's responsibility for assuring the financial strength and integrity of the institution. Many symphony organizations have achieved greater diversity in their boards' composition, and are experiencing the positive effect that this breadth of membership can have on how the board functions. It is a real challenge to bring diverse points of view together in the pursuit of common action, much as it is a challenge to develop throughout the larger, also culturally diverse symphony organization a shared vision for the whole institution.

“... every board should raise and deal with the question of its own composition, functioning, and effectiveness on a regular basis... probably in a facilitated self-appraisal.”

The board of directors is the senior work group in any corporation. How a symphony board functions—the practices and processes which are followed—sets an example and establishes the temperament for how work groups throughout that organization are composed and might and should function. The level of engagement and commitment of board members to their work permeates either positively or negatively throughout many symphony organizations. How a particular symphony board should be composed and function is a matter for each board and organization to address, and there are no formulas. However, every board should raise and deal with the question of its own composition, functioning, and effectiveness on a regular basis, at least annually, and probably in a facilitated self-appraisal, and thereafter take actions toward steady improvement.

In conclusion, I expressed the following beliefs.

- ◆ Boards of symphony organizations should give high priority to understanding how their symphony organization is functioning, as a holistic human organism, and what steps are being taken, including the board's own operation and effectiveness, to regularly improve the total organization's effectiveness.
- ◆ By broadening the composition of the board and its subgroups to include leadership and representation of each significant organizational and community constituency, as well

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as involving the community's civic, social, and business leadership, and by utilizing innovative group processes to reach decisions as to the direction and main policies of the organization, the board can become a microcosm and example of good group process and practice within the organization.

- ◆ Boards should regularly assess how they are functioning as a work group and how they can improve that functioning, and in the process, set an example for learning and steady change throughout the organization.

The author thanks Emily Melton for her preparation of the material making up this report.

Paul R. Judy, founder and chairman of the Symphony Orchestra Institute, is a retired investment banking executive. He is a life trustee and former president of the Chicago Symphony Orchestra. Mr. Judy holds A.B. and M.B.A. degrees from Harvard University.

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