Enhancing Firm Profitability by Improving Team Intelligence in the Boardroom

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Agenda

- Defining the Gap
- Traditional approach research findings
- Paradigm Shift to Teams
- Results of my Research
- Using TQ to Recruit Board Members
- TQ is “Contagious”
- Today’s Take-Away
- Questions
How many of you....

...own a share of stock in a public company?

...review the board of directors membership as a criteria when considering an investment?

...believe the board of directors have a direct impact on bottom-line corporate financial performance?

...think others care?
Rate your own performance and contribution as a director on your board.

Rate the effectiveness of your collective board in terms of achieving desired outcomes (action, governance quality, compliance, advisory).

1 = Highly ineffective, 2 = Ineffective, 3 = Neutral, 4 = Effective, 5 = Highly Effective

TQ: The New Science of Team Effectiveness
Problem of Practice

• In the US, 90% of directors rate their individual performance at very effective however, only 30% rate overall board performance at an equivalent level
  – Less than half the time, boards are assessing their performance as effective
  – Why does this happen and how do we address the gap?
RQ: How do board team characteristics and team interaction meaningfully impact corporate profitability?

Traditional approach using demographics as a proxy for interactions.
Traditional Research Approaches

- 150 years of academic research on the question of the impact of individuals on firm performance by examining the professional and social capital they contribute
  - Agency Theory, Resource Dependence Theory, Stewardship Theory
  - Past research produced disappointing results in the predictive quality of demographics to financial outcomes

- “Paradigm shift” – Forbes and Milliken (1999) suggested that a behavioral factor may distinguish effective from ineffective boards
  - No real measurement occurred until 2013
  - My research proves that behavioral attributes as a better predictor of financial outcomes than demographic attributes
Forbes & Milliken Theoretical Model

Board Characteristics
- Board demography
- Presence of knowledge & skills

Board Processes
- Effort norms
- Cognitive conflict
- Use of knowledge & skills

Board-Level Outcomes
- Task performance (control & service)

Firm-Level Outcome
- Firm performance

Cohesiveness

There are positive (+) and negative (−) relationships indicated by the arrows between the variables.
Impetus for Research – GAPS

- **Performance and perception gaps**: individual vs. team performance

- **Research gap**: relationship between upper echelons team performance and *corporate results*

- **Urgency**: “The past two decades of explosive growth of this domain [has] not yielded a particularly orderly or concise set of findings.”
Board Study Results

**Individual Characteristics**

- **Cultural Intelligence**
  - The ability of the individual to adapt to a cultural – P. Christopher Earley (Primary data source)

- **Professional Capital**
  - The knowledge and experience the individual brings to the team
    - Board, executive, functional experience, educational level, role
    - (Secondary data source)

- **Social Capital**
  - The depth and breadth of the individual’s social network as measured by BoardEx score
    - (Secondary data source)
Board Study Results

Measured using a validated instrument and captures the dynamic quality among team members

(All variables based on primary data source)

TIQ = measure of current perceived level of team dynamic quality

Measured using a validated instrument and captures the kinetic potential of achieving desired outcomes

Measured using a validated instrument and captures the level of team self-belief
TIQ = measure of current perceived level of team dynamic quality

TQ: The New Science of Team Effectiveness
"I really wish you guys would knock that off."
Key Findings

• Cultural Intelligence (CQ) was used for the first time in Board research and is a strong and significant antecedent to team dynamic quality
• Team dynamic and team effectiveness (as measured by the TQ instrument) is a strong and significant antecedent to team and firm outcomes
• TEAM TQ has an 8X greater impact on the DV than individual characteristics alone (0.5% vs. 4.0%)

TEAM DYNAMIC OF THE BOARD HAS A STRONGER ROLE IN TEAM AND FIRM OUTCOMES

Awards:
• IAMB 9/2013

Conferences:
• AOM, 2013
• ILA, 2013

Publications:
• IJDG, 2014
• Harvard Business Review (on-line)
• Corporate Board Magazine
• The Conference Board – Director Notes

• Corporate Secretary Magazine
• Upcoming book by Leblanc
• Chief Executive Magazine
• Agenda Magazine
• Odgers Berndtson Newsletter
Directors return to previously discussed issues that are important to them.

Current experience of the board

High-performing board

1 = Strongly disagree, 2 = Disagree, 3 = Neutral, 4 = Agree, 5 = Strongly Agree
Directors emphasize that each person in the team is unique.

Current experience of the board

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<th></th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
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<tr>
<td>1</td>
<td>1%</td>
<td>14%</td>
<td>36%</td>
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High-performing board

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<tbody>
<tr>
<td>1</td>
<td>0%</td>
<td>6%</td>
<td>11%</td>
<td>41%</td>
<td>41%</td>
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</tbody>
</table>

1 = Strongly disagree, 2 = Disagree, 3 = Neutral, 4 = Agree, 5 = Strongly Agree
Visualizing Team Dynamic

Map A: Under-performs competitors
Map B: Out-performs competitors
Visualizing Team Effectiveness

<table>
<thead>
<tr>
<th></th>
<th>Synergy</th>
<th>Quality</th>
<th>Skills</th>
<th>Innovation</th>
<th>Self-Efficacy</th>
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<tr>
<td>Board Members</td>
<td>3.0</td>
<td>2.7</td>
<td>2.8</td>
<td>2.9</td>
<td>3.4</td>
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<tr>
<td>High-Performing Organizations</td>
<td>4.3</td>
<td>4.0</td>
<td>3.8</td>
<td>4.1</td>
<td>4.5</td>
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Using TQ to Recruit Board Directors

- How one client used the tool:

  It is important to screen board candidates for Professional and Social capital, but these characteristics alone have a very small impact on profitability (0.5%). It is critical to select directors based on how well they will support (or change) the dynamic profile of the board to achieve high TQ, which explains 4% of profitability impact.
Relationship between Teams

- **TQ is “contagious”**
  Enhancing board TQ provides the climate to:
  - address difficult issues and tasks more quickly,
  - change the focus from administrative to strategic.

Directors on high TQ boards report that their experience is satisfying, whereas Directors on low TQ board report difficulties.

TQ quality cascades down the organization and has an critical impact for bottom-line performance.
Does Team Really Matter?

• Think about a time when you were on a successful team.
  ➢ What images come to mind?
  ➢ How did the positive team experience contribute to your personal learning and sense of well-being?

• Now think of a time when you were on a “bad” team.
  ➢ What images come to mind?
  ➢ Do you want to either run away or simply give up?
  ➢ What do you think you’re telegraphing to others on the team?
Narrative Summary or “What I Want You to Remember”

• Behaviors in the boardroom and C-suite have a meaningful relationship to corporate outcomes
  ➢ CQ and team dynamic identified as important factors

• Quantitative findings show that teams have a stronger correlation to financial performance than individuals:
  ➢ Boardroom from 0.5% to 4% of profitability performance
  ➢ C-suite from 5% to 20% of profitability performance

• TQ quality can be easily measured and used to understand financial impact of boards, as well as be used to screen potential candidates
  ➢ Represents a move from traditional approach to an unbiased and accurate assessment

• There’s something interesting going on between teams and TQ quality